

**S. 1510, THE UNITED STATES CRUISE SHIP
TOURISM DEVELOPMENT ACT OF 1999**

HEARING

BEFORE THE

**COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE**

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

OCTOBER 6, 1999

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SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

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WEDNESDAY, OCTOBER 6, 1999

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Committee met, pursuant to notice, at 9:35 a.m. in room SR-253, Russell Senate Office Building, Hon. John McCain, Chairman of the Committee, presiding.

Staff members assigned to this hearing: Robert Freeman, Republican professional staff; and Carl Bentzel, Democratic senior counsel.

OPENING STATEMENT OF HON. JOHN MCCAIN, U.S. SENATOR FROM ARIZONA

The CHAIRMAN. Good morning. Cruise tourism is a booming industry worldwide, with roughly 4 million American passengers annually. However, due to barriers in an obscure 1886 law, commonly referred to as the Passenger Vessel Services Act, most of our Nation's port cities are missing out on this economic boom. These barriers limit the choices Americans have when deciding on a cruise vacation by restricting the operation of internationally owned and operated vessels from making successive calls on our coastlines.

Additionally, new American companies that want to enter the large cruise ship domestic market are faced with barriers that prevent them from purchasing vessels already in operation. Instead, they are forced to try and overcome what to date has been the insurmountable task of acquiring financing to build a vessel in a U.S. shipyard at costs well above the world market. The task of acquiring financing is made more difficult by recent reports that point to an oversupply of vessels in the industry.

It has become clear that the Passenger Vessels Servicing Act is prohibiting American cruise passengers from cruising between U.S. ports and preventing a wide range of American maritime business and workers from benefiting from increased domestic trade. The protections obstacles to trade contained in the Passenger Vessel Services Act are neither bringing about U.S. flag ownership liners, nor creating American cruise industry jobs. I remain a firm believer in removing obstacles to free trade, and it is clearly time to revisit the Passenger Vessels Services Act.

At a minimum, the Act must be reformed in order to benefit the cruising consumer, the travel agents, the U.S. ports, and the businesses, stevedores, longshoremen and other workers who service and supply cruise ships sailing in the domestic market.

I am aware of recent advancements in the U.S. domestic cruise market that will introduce new vessels to the market. However, I remain convinced that the domestic market will remain virtually stagnant without the introduction of international vessels, re-flagged vessels, and newly constructed vessels.

This combination of ships is needed to service new markets and provide new competition. The cruise tourism industry today does not adequately serve U.S. port cities, nor does the PBSA actually protect U.S. cruise operators from competition. Internationally flagged operators already call on U.S. ports, although not successive ports, and U.S. operators already compete with internal operators both in North America and worldwide.

What I find most troubling about the current law is that it does not allow most of our port cities to compete for vacationers in this growing market. Further, I understand that U.S. shipbuilders and some U.S. seafarers, as they did with similar measures in the last Congress, object to S. 1510 based on the belief that the U.S.-flag cruise ship industry is growing on its own and that the best way to spur this growth on is to have the American taxpayers in this Congress provide them tax and regulatory breaks.

Additionally, opponents of this measure claim that U.S.-flagged vessels cannot compete and grow due to what they deem the unfair operating environment on international vessels. As evidence, they point to recent press accounts that highlight environmental health and safety problems on board internationally flagged vessels.

I strongly agree that some international cruise operators that currently operate in and out of U.S. ports have failed to follow the spirit of the law, if not the laws themselves, and that they must do more to ensure the on-board safety and comfort of their passengers.

I believe that continued failure by the international cruise industry to abide by all U.S. and international laws and regulations for operation in and out of our ports, and to meet high standards with regard to passenger safety and well-being, will result in action to restrict access, not expand it.

I challenge them to improve their operations, and I warn them that if they do not, the Congress will act, but that situation aside, we still must act to give the cruising consumer more choices. For this reason, I have joined with Senators Hutchison, Feinstein, and Murkowski to introduce S. 1510. I hope that today's hearing will provide insights on the possible economic benefits to be gained by passage of this measure.

I also want to note I am disappointed that Mr. Philip Calian, President of American Classic Voyages, operator of the only large cruise vessel in the U.S. domestic market, declined to appear here today to share his views on the bill, but I look forward to hearing from our witnesses on how we can improve the legislation and move forward in the process.

I want to thank Senator Hutchison for her involvement. I especially want to thank Senator Murkowski, who I know is dedicated to making sure that more citizens of our country and, indeed, from all over the world have the opportunity to visit his wonderful State in the most convenient and economic fashion.

[The prepared statement of Senator McCain follows:]

PREPARED STATEMENT OF HON. JOHN MCCAIN, U.S. SENATOR FROM ARIZONA

Cruise tourism is a booming industry worldwide with roughly four million Americans passengers annually. However, due to barriers in an obscure 1886 law commonly referred to as the Passenger Vessel Services Act, most of our nation's port cities are missing out on this economic boom.

These barriers limit the choices Americans have when deciding on a cruise vacation by restricting the operation of internationally owned and operated vessels from making successive calls on our coast lines.

Additionally, new American companies that want to enter the large cruise ship domestic market are faced with barriers that prevent them from purchasing vessels already in operation. Instead, they are forced to try and overcome what to date has been the insurmountable task of acquiring financing to build a vessel in a U.S. shipyard at costs well above the world market. The task of acquiring financing is made more difficult by recent reports that point to an over-supply of vessels in the industry.

It has become clear that the the that the Passenger Vessel Services Act is prohibiting American cruise passengers from cruising between U.S. ports and preventing a wide range of American maritime business and workers from benefiting from increased domestic trade. The protectionist obstacles to trade contained in the Passenger Vessel Services Act are neither bringing about U.S.-flagged ocean liners nor creating American cruise industry jobs.

I remain a firm believer in removing obstacles to free trade and it is clearly time to revisit the Passenger Vessel Services Act. At a minimum, the Act must be reformed in order to benefit the cruising consumer, travel agents, U.S. ports, and businesses, stevedores, longshoremen, and other workers who would service and supply cruise ships sailing in the domestic market.

I am aware of recent advancements in the U.S. domestic cruise market that will introduce new vessels to the market. However, I remain convinced that the domestic market will remain virtually stagnant without the introduction of internationally vessels, reflagged vessels, and newly constructed vessels. This combination of ships is needed to service new markets and provide new competition.

The cruise tourism industry today does not adequately serve U.S. port cities; nor does the PVSA actually protect U.S. cruise operators from competition. Internationally flagged operators already call on U.S. ports, although not successive ports, and U.S. operators already compete with international operators both in North America and worldwide. What I find most troubling about the current law is that it does not allow most of our port cities to compete for vacationers in this growing market.

Further, I understand that U.S. shipbuilders and some U.S. seafarers, as they did with similar measures in the last Congress, object to S. 1510 based on the belief that the U.S.-flag cruise ship industry is growing on its own and that the best way to continue this growth is to have the American taxpayers and this Congress provide them with tax and regulatory breaks.

Additionally, opponents of this measure claim that U.S.-flagged vessels cannot compete and grow due to what they deem the unfair operating environment on international vessels. As evidence, they point to recent press accounts that highlight environmental, health and safety problems on board internationally flagged vessels.

I agree that the some international cruise operators that currently operate in and out of U.S. ports, have failed to follow the spirit of the law, if not the laws themselves, and that they must do more to ensure the on-board safety and comfort of their passengers.

I believe that continued failure by the international cruise industry to abide by all U.S. and international laws and regulations for operation in and out of our ports and to meet high standards with regard to passenger safety and well-being will result in action to restrict access, not expand it. I challenge them to improve their operations and I warn them that if they don't, the Congress will act. But that situation aside, we still must act to give the cruising consumer more choices.

For this reason I have joined Senators Hutchison, Feinstein and Murkowski to introduce S. 1510. I hope that today's hearing will provide insights on the possible economic benefits to be gained by passage of this measure.

I also want to note that I am disappointed that Mr. Philip Calian, President of American Classic Voyages, operator of the only large cruise vessel in the U.S. domestic market declined to testify today to share his views on the bill, but I look forward to hearing from our witnesses on how we can improve the bill and move forward on the legislative process.

I would like to call our first panel up, and while they come up, perhaps we could hear from Senator Hutchison and from Senator Murkowski.

The first panel is Ms. Cynthia Colenda, president, International Council of Cruise Lines, Mr. Al Wallack, president, Voyager Holdings, Incorporated, and Mr. Edmund B. Welch, legislative director of the Passenger Vessel Association.

Senator Hutchison, thank you for your support of this legislation. I also know that this has some impact on the port cities of Texas as well. Senator Hutchison.

**STATEMENT OF HON. KAY BAILEY HUTCHISON,
U.S. SENATOR FROM TEXAS**

Senator HUTCHISON. Thank you, Mr. Chairman. I appreciate your calling this hearing. I am pleased to be a cosponsor of S. 1510. It is an important bill to help an important and growing industry, and it is estimated that the cruise industry has doubled in the last 6 years.

New studies show that the cruise industry was responsible for \$11 billion in economic activity in the United States. Direct cruise industry spending in my State of Texas was \$123 million in 1998. A 1997 economic impact study by the California Trade and Commerce Agency estimated that limited deregulation of the cruise industry would create more than 1100 new jobs, and 93 million on-shore and maritime revenue dollars for the State of California.

So clearly the cruise industry is an important part of State economies, and I think many Americans would like a larger opportunity to sample the cruise industry and to actually go on cruises, but many Americans have wondered why they would have to sail from Vancouver to go to Alaska, as opposed to sailing from Seattle. The same can be said for cruises leaving in my home area of the Gulf of Mexico.

On the other hand, we know that foreign-flagged vessels have built-in advantages over their U.S. competitors, ranging from lower ranges to lax environmental laws. This is a situation that we see repeated in other industries as well. It is not fair, and we have to address it.

We also know that there are foreign subsidies for building foreign cruise ships, so we have a difficult issue on our hands.

I first held a hearing on this issue nearly 2 years ago. Many different views were expressed. I appreciated both the concerns of cruise operators and of maritime employers and employees that want more U.S. shipbuilding. I think the bill we are discussing today is an appropriate middle ground.

For the next 3 years, this bill would allow for the immediate re-flagging of large cruise vessels under the U.S. flag for domestic cruise operations. Our goal is to get more ships under the U.S. flag, and the bill also encourages repairs and construction of vessels in U.S. shipyards. I understand that there are still some opposed to this bill, but I would hope that we could continue to work so that we can pass a bill this session.

Not passing a bill would be an economic loss for the shipping industry and other States which benefit from tourism, so we should not walk away from a bill that could create U.S. jobs and opportu-

nities for U.S. consumers, so I thank the chairman, and let me say that I am going to continue the hearing.

The chairman has gone, and I would like to ask the panel also to come forward so that we can have one panel. It is only six witnesses, and I think we could do better by doing the panels together.

So if you could scoot together, and if the other three witnesses, Veronica Sanchez, Executive Director of Cruising America Coalition, Larry O'Toole, the President of the National Marine Engineers' Beneficial Association, and Mr. Allen Walker, the President of the Shipbuilders' Council of America, I think we can have a good, strong panel altogether. Thank you.

[The prepared statement of Senator Inouye and articles that he requested be included in the record follow:]

PREPARED STATEMENT OF HON. DANIEL K. INOUE, U.S. SENATOR FROM HAWAII

Mr. Chairman, I would like to thank you for holding this hearing. I share your interest in expanding cruise ship opportunities in U.S. ports. The development of a U.S. cruise industry can create significant economic benefits to the nation. Currently more than 3,600 U.S.-flag passenger vessels ply the waters of the United States carrying hundreds of millions of passengers annually and creating thousands of American jobs. Most of these are smaller vessels. However, significant progress is being made in developing a thriving U.S.-flag, U.S.-crewed, and U.S.-built cruise ship industry.

Recently, I was privileged to attend the signing of a shipbuilding contract for construction of the first U.S.-built oceangoing cruise ships in more than 40 years. These will be the largest cruise ships ever built in the United States and their construction and operation will create more than 5,000 American shipyard, seafaring and shore-side jobs.

I strongly believe that Congress can provide incentives for the development of a U.S.-flag, U.S.-built cruise ship industry. While I commend the Chairman for his efforts to build a cruise industry in the United States, I do have concerns about the legislation before the Committee today. I am particularly troubled by those provisions that would allow foreign-flag cruise ships, built with foreign subsidies and operated by Third World crews being paid sub-minimum wages, to provide domestic cruises. Already these foreign cruise ships—which carry mostly American passengers from U.S. ports—operate in the international trades essentially free from all American laws, including taxation, labor and U.S. safety laws, giving these foreign ships significant economic advantages over U.S.-flag cruise ships and other vacation alternatives. Current law already provides significant flexibility to these foreign cruise lines to visit U.S. ports as part of an international voyage. In fact, in Hawaii, over 50 percent of passengers are currently carried by foreign cruise lines.

A number of incidents have occurred recently which have brought to the fore concerns about the activities of foreign cruise lines operating in the United States. One line was fined \$18 million for violations of our environmental laws this year—just one year after its \$9 million fine for similar actions. There have been serious allegations of sexual assaults on these cruise ships. I am sure that my colleagues on the Committee have seen the series of front-page *New York Times* articles highlighting the significance of these issues.

Mr. Chairman, I would like to have these, as well as several additional articles and statements, submitted for the record. These articles raise important public policy questions. Is the U.S. doing enough to regulate foreign cruise ships carrying American passengers from U.S. ports? Most of these foreign cruise lines argue that they are immune from U.S. laws and regulatory oversight because they are governed by the flag states in which those vessels are registered. The flag states for these “flag of convenience” ships often provide lax oversight of their vessels. It has become such an issue that even the hometown paper to most of these foreign cruise lines—*The Miami Herald*—is calling on Congress to regulate the cruise industry. I would like to read a quote from the editorial entitled “Shame of the Seas” that appeared this past Sunday:

...Congress should act now to extend U.S. jurisdiction [to foreign cruise lines] by ending the sham of “flags of conveniences.” Nothing less can protect American passengers and waters from future abuses.

Mr. Chairman, I raise these issues because I am concerned that the approach being advocated today would only increase the opportunities for these foreign cruise lines to further exploit the U.S. environment and American passengers by allowing them the unprecedented ability to offer domestic cruises without requiring them to abide by all U.S. laws. For example, it would allow foreign crewmen to serve on cruise ships operating within the United States without requiring them to abide by U.S. labor laws such as the Fair Labor Standards Act or the National Labor Relations Act. We do not exempt any other industry from these important laws when they operate in our country. Why should the cruise industry be any different? The significant advantages gained by allowing these cruise ships to operate inside our waters but outside our laws would create an insurmountable hurdle to the creation of a viable U.S.-flag cruise industry.

Let me close by saying that I believe the Chairman's goal is admirable. I have served in this chamber for more than 36 years and I have been, and continue to be, a strong supporter of our U.S. maritime industry. After many years and numerous attempts to stimulate a U.S.-flag cruise industry, we are finally starting to see one develop. It is a slow process and the Pilot Project I sponsored is just one step toward this revitalization. But I strongly believe that we can work together to continue developing a viable, strong U.S.-flag, U.S.-crewed, U.S.-built cruise industry. Unfortunately, I do not believe that this legislation as currently drafted will accomplish this goal, and in fact, it could harm existing U.S.-flag cruise operations.

Mr. Chairman, our U.S.-flag maritime industry plays an important role in the economy and national security of this great nation. I look forward to working with you on legislation to expand U.S.-flag, U.S.-crewed, and U.S.-built cruising opportunities in the United States.

The Miami Herald
October 3, 1999

SHAME OF THE SEAS

CONGRESS MUST REGULATE CRUISE INDUSTRY

The most shocking thing about the U.S. government's pollution case against Royal Caribbean cruise lines earlier this year was the result—the government actually won. Previously, the cruise line's defense—that the government lacked jurisdiction to regulate its foreign-flagged ships—has proven ironclad.

But not this time. And with this case fresh in mind, Congress should act now to extend U.S. jurisdiction by ending the sham of "flags of convenience." Nothing less can protect American passengers and waters from future abuses.

It was only because of prescient investigators, cunning prosecutors and a courageous judge that Royal Caribbean pleaded guilty and has agreed to pay an \$18 million fine. The account of how the government achieved this unlikely victory was detailed last Sunday by Herald business writer Gregg Fields.

The story, including a damning infrared Coast Guard photograph of waste trailing the Nordic Empress, painted an unflattering picture of Royal Caribbean in the early 1990s. Evidence showed that its employees altered waste-disposal equipment to mask the illegal discharge of oil and other pollutants. It suggested a willful pattern of violations over years involving several ships. And it showed a company that was either negligently unaware of egregious polluting by its ships or arrogantly callous to the consequences.

CHANGES HAVE BEEN MADE

Royal Caribbean president Jack Williams has said that what occurred represented "shortcomings" in the oversight of critical operations. He pledges that operations have been radically changed, that antipollution equipment used today is state-of-the-art and enforcement of strict procedures is rigorous and ongoing. By its public comments, the company has been chastened, embarrassed and completely changed.

We hope that the changes outlined are real and lasting. South Florida is the cruise capital of the world, home to an industry that generates billions of dollars in revenues, much of it pumped into the local economy.

Yet the case against Royal Caribbean provides useful ammunition for critics, including this page, who believe that the government should take a bigger role in regulating the industry so that it conforms to established federal environmental, labor and criminal laws. Recently, for example, Carnival Cruise Lines acknowledged only after being sued that 108 sexual assaults occurred on its ships during a five-year period. Congress has tried to impose standards, but it has been thwarted by the in-

dustry's political clout and international law, which governs the industry. It must try again.

Cruise ships once catered primarily to celebrities and the rich. But since the 1980s, the industry has been transformed to the point where a cruise today is within easy reach of almost everyone. Yet to skirt U.S. law and regulatory oversight, most cruise ships register in countries such as Panama, Liberia or the Bahamas—which provide “flags of convenience” and impose minimal regulations.

In the pollution case against Royal Caribbean, defense lawyers argued that only those third-party countries, which have been notoriously ineffective, could enforce the laws.

This time, however, federal prosecutors in Miami and other cities devised a novel argument. They charged the company with lying in its reports to the government—not polluting the seas—because the reports were filed while the ships were in U.S. ports.

PRECEDENT FOR INTERVENTION

Through that narrow and ingenious tactic, prosecutors ultimately prevailed. But too much is at stake and the industry is too intertwined in the nation's commercial and social fabric not to be governed by the same laws that affect other enterprises.

In the words of U.S. prosecutors during the trial: “What is unprecedented is the claim by a private corporation headquartered in the United States, doing business in the United States, plying the waters of the United States, and using U.S. ports, that it is immune for a U.S. criminal prosecution for violations of U.S. law that took place in the United States.

Some legal experts argue that under certain conditions international law does permit an override by domestic law. An override can occur, for example, when there is significant impact to the local jurisdiction. France, for instance, claims jurisdiction whenever any of its citizens is involved in a murder, even if the crime occurred in another country. Likewise, Israel claimed and won the right to try an American youth on a murder committed in Maryland because the boy's father had been born in Palestine.

U.S. courts haven't embraced this principle as applied to cruise lines. But it can be a starting point for Congress to begin a review of U.S. oversight of the industry.

The Wall Street Journal

Thursday, July 3, 1997

FOR CRUISE WORKERS, LIFE IS NO 'LOVE BOAT'

By Joshua Harris Prager

Staff Reporter of *The Wall Street Journal*

The fog horn bellows as the cruise ship Holiday pulls out of the Los Angeles harbor bound for Catalina, Mexico. Standing below the aft deck in a white shirt and black apron, Pavel Lukanov wonders how his dreams became shipwrecked. He earned an economics degree back home in Croatia but now spends day after day busing tables.

Mr. Lukanov works between 16 and 18 hours a day, for which Carnival Cruise Lines pays him just \$1.50 daily. He is at sea 10 months a year, and has two days off a month. The bulk of his livelihood is the almost \$1,000 a month in tips he collects. “That's big money in my country,” Mr. Lukanov explains.

Most passengers, dancing and dining on luxury cruise lines, have no idea that the busboys and bellhops who attend them are living on subsistence wages. A majority of the workers are from Third World countries, and many are college educated, yet they vie for jobs aboard American-owned cruise ships, flooding cruise line agencies around the globe from Honduras to Romania. As Ihsan Satilmis, a native of Turkey and a waiter on Celebrity Cruise Lines' Galaxy explains, “I cannot make better money in my country.”

Many of the 55,000 employees aboard the world's 110 cruise ships don't fare as well as Mr. Lukanov. “Some workers are vacuuming or peeling potatoes. They only get tips if they have a table,” says the Rev. Paul Chapman, former director of the Center for Seafarers' Rights. Ludim Talma, a 27-year-old Haitian, spends eight to 10 hours a day buffing brass aboard Carnival's gargantuan Destiny, the world's first 100,000-ton-plus cruise ship. He is paid \$182 every two weeks and receives no tips, which works out to roughly \$1.56 an hour, slightly more than one-third the \$4.45 U.S. minimum wage.

Cruise lines are able to avoid U.S. minimum wage laws the same way they do taxes, registration and inspection fees and safety and environmental regulations - by registering their ships abroad. Their vessels sail under foreign flags known pejoratively as "flags of convenience" and save millions of dollars annually.

The practice became common in the 1980s, when waves of American-owned cruise lines including Carnival and Celebrity began to jump ship to registries anchored primarily in such developing nations as Panama, the Bahamas and Liberia. "It is an industry that has used a series of legal maneuvers," explains Joseph Belluck, a former staff attorney at Public Citizen, a public-interest advocacy group. "The U.S. cannot enforce occupational safety and health laws on any employer located abroad."

Carnival spokesman Tim Gallagher says, "We do not disclose employee compensation." But Cynthia Colanda, president of the International Council of Cruise Lines "says that cruise employees are granted 'excellent job opportunities.' As for their salaries, she says that 'within the maritime industry, we pay competitive prices.'"

Cruise wages also compete favorably with foreign land-based salaries. The average per-capita income in the Philippines is less than \$1,000 a year, while an elementary school teacher in Romania earns just \$70 a month. Thus foreign workers clamor for jobs aboard cruise ships that not only offer superior wages, but room and board and various benefits as well.

The ICCL-worker relationship is strained, however. Last year the ICCL tried to persuade Congress to revoke the legal right of a foreign worker to sue a cruise line in U.S. court, but lawmakers voted against the measure.

Some workers say life on board is smooth sailing. Wesley Evans left Jamaica 13 years ago to be a busboy on a cruise ship, and today is the head bartender aboard Royal Caribbean Cruise Lines' Song of America. He now earns roughly \$30,000 a year, primarily in tips. "I love my job," says Mr. Evans, whose wide grin reveals a few sparkling golden front teeth. "They take care of everything for me."

Other cruise employees, however, say they feel like flotsam. Mr. Lukanov describes what critics say are the industry's questionable recruiting tactics. He says that like many newly hired cruise ship employees, he had to pay a Croatian cruise ship agent \$600 to confirm his hiring. Carnival then temporarily paid the \$1,400 for his ticket to the U.S. Suddenly in debt, Mr. Lukanov became, effectively, an indentured cruise line employee, obligated to work for months to pay off his loan. (Having finished his stint on the Holiday, Mr. Lukanov is currently on leave and will return to work aboard Carnival's Inspiration.)

Mr. Gallagher says he was unfamiliar with Mr. Lukanov's case and adds, "We don't generally pay for someone's ticket." Still, Mr. Gallagher says, "I'm not saying that we've never found abuses. In such cases, we've made a change."

A day in the life of a cruise worker is hardly the routine depicted on television's "Love Boat." Busboy bunkmates—four to a room—typically awaken at 5:30 a.m. and work three meals from 6 a.m. to 11 p.m. Breaks are used as time to sleep, or if in port, to make the occasional phone call home. "This is very tough," says Sasha Mandish, a Yugoslavian former busboy aboard Celebrity's SS Meridian. "We don't see our families [for] five, six months."

Workers' rooms are inspected biweekly. There is a separate bar and pool for the crew, as interaction with passengers is forbidden. Infractions in cruise policy—such as tardiness, dirty quarters, bacchanalia and mingling—are recorded. After two infractions, a worker's coveted position can be given to someone else.

Meanwhile, passengers imbibe at swim-up bars, dance beneath retractable domes, and feast on smorgasbords bedecked in a panoply of flowers and fronds. The crew is barely noticeable and is told to keep it that way. Explains John Edinborough, a former busboy aboard the Destiny, "You can say hello, but that's it."

Kevin Rodriguez, a travel agent at Liberty Travel in Manhattan, theorizes that vacationers "simply never think about" the condition of the workers. "They're in a totally different world," he says.

The New York Times
Sunday, January 3, 1999

GAPS IN SEA LAWS SHIELD POLLUTION BY CRUISE LINES

By Douglas Frantz

Shortly after 10 A.M. on Oct. 25, 1994, radar and infrared sensors aboard a Coast Guard jet over the Atlantic off Puerto Rico detected a possible oil discharge. As the aircraft swept low, its crew saw a long oil slick trailing a ship entering the San Juan harbor.

The vessel was then the largest cruise ship in the world, Royal Caribbean's *Sovereign of the Seas*, a floating resort the length of three football fields. When Coast Guard inspectors boarded the ship in port, its officers denied discharging any oil.

Suspicious, the Coast Guard and Justice Department opened what would grow into a four-year inquiry leading to the discovery of a fleet-wide conspiracy within Royal Caribbean Cruises Ltd. to save millions of dollars by dumping oily waste into the ocean. Last June the cruise line pleaded guilty to conspiracy and obstruction of justice, admitted that its ships had rigged pipes to bypass anti-pollution equipment, agreed to pay a record \$9 million in fines and promised the dumping would never happen again.

Astonishingly, the next month it did. The *Nordic Empress*, another Royal Caribbean ship, was discovered discharging oily waste and creating false records to cover it up. Moreover, the new dumping incident occurred even though the company knew it remained under Federal investigation for other discharge incidents.

An examination of the criminal investigation, plus new details about the latest incident, shows how difficult it is for authorities to police the booming cruise industry as it launches ever larger ships, and how determined the industry is to make itself exempt from American regulation.

The review offers strong evidence that the dumping of oil and other wastes by cruise ships, which can create lasting pollution problems in oceans and coastal areas, is more common than previously known. And it reveals an influential industry that has assembled an international lobbying force to plead its case. Royal Caribbean's included two former United States Attorneys General, Elliot L. Richardson and Benjamin R. Civiletti.

In defending itself, Royal Caribbean, a Liberian corporation with its headquarters in Miami, made what the Justice Department described as an unprecedented claim: that a private company doing business in the United States was immune from criminal prosecution because its ships fly foreign flags.

All major cruise ship owners—including Disney, which launched its first ship, the 2,200-passenger *Magic*, last summer—sail their ships under foreign flags. By registering with so-called flag countries in exchange for substantial fees, the owners avoid American corporate taxes and can pay lower wages to foreign crews. Financial documents show that Royal Caribbean saves approximately \$30 million a year in United States taxes by registering its ships in Norway and Liberia.

Critics say the savings come at the price of muddled jurisdiction and lax enforcement by the flag countries, one of the most prominent of which, Liberia, has been devastated by ethnic warfare and divided government most of the last decade. One Federal study found that foreign countries took action in only 2 of 111 dumping cases referred to them by the United States. Generally, flag countries have jurisdiction over ships in international waters and the United States asserts jurisdiction in its territorial waters.

These questions are raised just as concern is deepening that the industry's explosive growth is posing new threats to the environment, from the popular Caribbean to the pristine coastline of Alaska.

Royal Caribbean officials said the company had instituted tough new environmental compliance procedures. But the company did not succeed in having the case against it closed with its guilty plea. Instead, the company's discharge practices remain under investigation by Federal grand juries in Anchorage, Los Angeles, Miami and New York, according to a senior company official and its own recent filings with the Securities and Exchange Commission.

The outlines of the country's biggest ocean pollution investigation have been public since the company's admission of guilt. But the full extent of the dumping scheme, and the existence of the lobbying effort, was pieced together from court records in San Juan and Miami and from interviews with Federal officials and current and former Royal Caribbean employees.

The newest cruise ships carry 2,000 or more passengers and up to 1,000 crew members. Disposing of the waste they generate costs hundreds of thousands of dollars a year for each ship, which is one reason, authorities say, that crews sometimes disregard pollution laws.

In recent years other cruise lines have been fined at least six times for dumping oil and refuse. Last summer the Holland America Line, a division of the Carnival Corporation, pleaded guilty to discharging oily waste in Alaska's Inside Passage and paid \$2 million in penalties.

THE INVESTIGATION

TOLD OF DISCHARGE, PROSECUTORS MOVE IN

Word that the Sovereign of the Seas had discharged oily waste in October 1994 reached the Justice Department in Washington the day after the incident. In three inspections that October day, the Coast Guard had seen oil in pipes and elsewhere indicating that oily waste had been sent directly overboard. Most convincingly, lab tests matched oil from the ship to a sample taken from the slick by a Coast Guard boat.

Royal Caribbean argued that the discharge was an isolated oversight. But Richard A. Udell, a career prosecutor in the Justice Department's environmental section, found indications to the contrary in Coast Guard data bases. The records showed that more than a year before, on Feb. 1, 1993, a Coast Guard jet had spotted an oil slick behind the Nordic Empress, off the Bahamas en route to Miami. A videotape taken from the jet showed a slick that appeared to be a perfect match to the videotaped discharge from the Sovereign of the Seas. The Nordic Empress's officers had also denied discharging anything.

On Oct. 25, 1994, inspectors had videotaped the engine room of the Sovereign of the Seas in San Juan; four days later, when the ship arrived in Miami, a second videotape was taken. Comparing them, Mr. Udell noticed that a set of pipes present on Oct. 25 was gone on Oct. 29. Government experts determined that the pipes had bypassed a critical anti-pollution device known as an oil-water separator.

On any ship, oil drips from machinery and collects along with sea water in the bilges. The separator filters out oil so the water can be discharged and the oil stored for disposal in port. Each time the separator is operated, the event must be noted in the ship's oil record book. The Coast Guard relies on the books to monitor compliance with pollution laws.

The oil record book of the Sovereign of the Seas contained no record of a discharge. Later, a ship's engineer testified before a Federal grand jury that there had been none. The officers of the Nordic Empress had made the same claim in 1993, supported by their oil record book.

It took several months, but Coast Guard investigators eventually discovered similar bypass systems on the Nordic Empress and other Royal Caribbean ships. They began to doubt the authenticity of the oil logs.

Confronted by the evidence, witnesses changed their stories. They testified that Royal Caribbean ships regularly bypassed pollution devices and dumped oily waste overboard, usually at night to avoid detection. An engineer from one ship, the Song of America, testified that the oil-water separator was operated so infrequently that it did not work when he did try to use it. They also admitted that the oil record books were falsified so routinely that they were known among many engineers as Eeventyrbok, which means fairy tale book in Norwegian.

As for the disappearing pipes on the Sovereign of the Seas, engineers said they had been ordered to cut them up on the voyage from San Juan to Miami and drop them in a trash bin, according to court records.

Oil-water separators are notoriously troublesome to operate. But company engineers testified that the bypass systems, which had been in operation on some ships since 1990, were partly the result of the company's bonus incentives. Membranes for the separator cost as much as \$80,000 a year per ship and disposing of waste oil in port can cost \$300,000 a year. By saving this money, a ship's officers could receive bigger year-end bonuses for staying under budget.

The savings was the Government's strongest evidence that senior management may have known of the conspiracy, said Government officials involved in the case.

But investigators were stymied in following the trail because crucial witnesses, all foreign employees of Royal Caribbean, had left the company and either returned home or taken jobs with other cruise lines outside the United States, the officials said. No senior company officials were charged.

THE DEFENSE

CRUISE LINE THROWS BIG GUNS INTO BATTLE

As evidence mounted, Royal Caribbean's lawyers tried to reach a deal. People involved in the negotiations said that in the fall of 1996 the company offered to plead guilty to some charges and pay a substantial fine. But the department rejected the offer and within weeks prosecutors told company lawyers to expect a 35-count indictment.

Mr. Civiletti, who was Attorney General under President Jimmy Carter, and two of his law partners, Judson W. Starr and Joseph G. Block, both former Justice De-

partment environmental chiefs, had tried to negotiate the plea bargain. Other former Government officials working for the company had lobbied the State Department and Pentagon in an effort to persuade the Justice Department not to file charges.

The mission of the lobbying and legal arguments was not to refute the accusations, which would prove irrefutable, but to dispute the authority of the United States to bring charges. The former officials argued that asserting American jurisdiction undermined international Law of the Sea and could lead other nations to interfere with American vessels, particularly military ships.

Some senior State and Pentagon officials agreed with the international law argument, but in a later legal brief, the Justice Department accused unnamed former Government officials on Royal Caribbean's payroll of providing incomplete and inaccurate information in those private sessions, something company lawyers deny.

A pre-indictment review is not unusual in a major case, and in this instance the Justice Department approved an indictment reduced to 10 counts. On Dec. 11, 1996, the grand jury in San Juan indicted Royal Caribbean and two engineers from the Sovereign of the Seas. The indictment accused the company of conducting a fleet-wide conspiracy to illegally discharge oily waste, but restricted most of the counts to the Sovereign of the Seas. The inquiry into the 1993 Nordic Empress discharge was shifted to a Federal grand jury in Miami.

Justice Department officials said Royal Caribbean's lobbying played no role in reducing the number of counts. "Like every other case, the appropriate charges were based solely on the facts and the law," said Myron Marlin, the department's chief spokesman. "In the end, the prosecution produced two criminal convictions, a record fine, and the case has had a ripple effect throughout the industry, not to mention that the investigation is still continuing."

Legal maneuvering intensified after the indictment. The company's team expanded to include four retired admirals, a former acting assistant attorney general, a former Coast Guard commandant and a former deputy assistant secretary for oceans at the State Department.

Many of these former officials filed affidavits saying the United States could not charge the company under international law. Some contacted former colleagues in a continuing effort to settle the case, according to court records and interviews.

Mr. Richardson, who was Attorney General under President Nixon and held other top Government posts, sought meetings with high-level Administration officials and acknowledged raising the issue with Thomas R. Pickering, the Under Secretary of State and an old friend.

"I mentioned it briefly to Tom Pickering," Mr. Richardson said. The conversation was brief because the matter was in litigation."

The effort was international. An influential Norwegian family owns a large share of Royal Caribbean and its members helped enlist the Norwegian Government, people involved said. On March 12, 1997, a delegation from the Norwegian Embassy delivered a diplomatic note to the State Department seeking jurisdiction because the Sovereign of the Seas flies a Norwegian flag. They met with Mr. Pickering and other officials, people involved in the talks said.

Along with the prosecutors' steadfast contention that the United States had jurisdiction, they believed another reason not to cede authority was the poor record of flag countries on previous pollution referrals.

In 1992, the State Department had reviewed 111 cases in which accusations of cruise ships dumping garbage overboard had been referred to flag countries. The study found that the countries acknowledged receipt of the referral in only 35 cases and that the only penalties were small fines in two cases. As a result, the State Department halted referrals on dumping in United States territorial waters.

The Nordic Empress had been in international waters when it was discovered discharging oil in 1993, so in July of that year the matter was referred to Liberia because the ship flew a Liberian flag. Liberia accepted the company's claims that no dumping occurred and asked the Coast Guard to expunge the incident from its records, according to Liberian records.

Even after Royal Caribbean admitted lying about the Nordic Empress discharge last June, Liberia decided no action was necessary. The investigation was completed and closed in 1994, said David Crede, chief of investigations for Liberian Services Inc., a private company in Reston, Va., that is Liberia's agent for vessels flying its flag. In the case of the Sovereign of the Seas, the Norwegian Embassy said its officials had looked into the case and decided that no action was warranted.

THE OUTCOME

AFTER LEGAL SETBACKS, A PLEA OF GUILTY

The Nordic Empress had discharged its waste in international waters, but the ship had presented the Coast Guard in Miami with an oil record book that omitted the discharge. So, on Feb. 19, 1998, Royal Caribbean was indicted in Miami, not for dumping but on a single count of making a false statement to the Coast Guard.

On April 22 and 23, a pivotal hearing took place in Federal District Court in Miami in which the cruise line asked Judge Donald M. Middlebrooks to dismiss the charges.

The Federal judge in San Juan handling the Sovereign of the Seas case, Juan M. Perez-Gimenez, had already rejected the company's claim that the United States lacked jurisdiction and had ordered the case to trial in June.

At the Miami hearing, Mr. Civiletti argued that the United States had overreached its authority. He said that Liberia had jurisdiction and that that country had determined there was insufficient evidence of a crime. He also produced a surprise diplomatic note from the Liberian Embassy in Washington to the State Department asking that the case be dismissed.

Mr. Udell countered that Royal Caribbean's false statement to the Coast Guard, plus its extensive presence here, subjected the company to American law. Although its ships fly various flags of convenience, he said, "Royal Caribbean is as much a part of Miami as the Miami Dolphins."

The company called Mr. Richardson as an expert witness, because he had been the chief American negotiator at the United Nations conference that led to the Law of the Sea Treaty. He testified that only Liberia could prosecute the discharge, and warned that the case would undermine the navigational freedom established by the United Nations convention.

But Mr. Richardson seemed less certain when the prosecutor, Thomas Watts-Fitzgerald, asked whether his view would change if the ship had produced a record required by the Coast Guard that contained a misrepresentation. It might well, Mr. Richardson replied.

On May 12, Judge Middlebrooks rejected the motion to dismiss, ruling that the United States had authority to press charges because of the false statement to the Coast Guard.

Losing on the jurisdiction issue and faced with indisputable evidence, Royal Caribbean pleaded guilty on June 3 in both cases and agreed to pay \$9 million in fines. The Government called the violations so pervasive and longstanding that the criminal conduct amounted to a routine business practice.

Unlike most plea bargains, this one did not end Royal Caribbean's criminal liability. The company refused to yield to Government demands that it turn over the results of an internal inquiry, citing fears that employees would refuse to cooperate in future internal investigations. As a result, the company acknowledged, additional grand juries are contemplating similar charges.

The cruise line struggled to put the episode behind it. "We deeply regret our role in polluting the marine environment and we are particularly sorry for the attempts to conceal that pollution," Jack Williams, the company president, said in a statement. "These acts were inexcusable, they were wrong and we accept full responsibility for these violations."

But that effort hit a stunning shoal. On July 15, the company notified the Coast Guard that engineers aboard the Nordic Empress had tampered with pollution devices and discharged oily waste into the ocean. The company said a junior engineer had reported it.

When the Coast Guard questioned engineering personnel the next day, it was like stepping back in time. The chief engineer, Michael Psomadakis, a Greek citizen, denied that there had been a discharge and presented an oil record book that supported him, according to court records and a Coast Guard agent's affidavit. Mr. Psomadakis was served with a grand jury subpoena on the spot.

Two days later, the company held its own hearing and dismissed Mr. Psomadakis and another engineer. On July 19, company personnel escorted him to a Miami hotel to pick up his belongings for the trip home to Greece. He was given his passport and plane ticket and then evaded agents of the Federal Bureau of Investigation who were waiting to talk to him, simply by walking out another exit.

Nancy J. Wheatley, who was hired by Royal Caribbean last June as senior vice president for safety and the environment, and William K. Reilly, the former administrator of the Environmental Protection Agency, who joined the Royal Caribbean board last January, said in interviews that the company had implemented a vigorous new environmental compliance program under Government supervision.

Mr. Reilly said he believed the company's management was committed to cleaning up its past problems.

"Obviously everyone is chagrined about what has happened and somewhat stunned by the seriousness of the allegations," Mr. Reilly said. "The Justice Department set out to get Royal Caribbean's attention, and they got it."

Ms. Wheatley said the latest incident showed that the system was working, because a junior officer came forward and was supported by management.

"We know we don't have a business if the oceans aren't a beautiful place to go," Ms. Wheatley said.

But prosecutors were shocked. At a court hearing in September, they said the conduct, which was under investigation, demonstrated the difficulty in changing a pervasive culture of ingrained criminal conduct.

New York Times

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ON CRUISE SHIPS, SILENCE SHROUDS CRIMES

By Douglas Frantz

A Texas woman on a Caribbean cruise with her husband accused a waiter of drugging their dinner drinks and later raping her in their cabin.

An Oregon family on a cruise said their daughter was raped by a ship's bartender after she celebrated her 16th birthday in a bar.

A California woman said that a crewman forced his way into her cabin and beat and raped her.

As with many rape cases, none of these was clearcut. Some involved alcohol and counterclaims of consensual sex. One wasn't reported until after the cruise. Yet in every case, the accusers say, the cruise line's main concern was to protect its reputation by buying or coercing their silence and shielding the accused.

Once the exclusive playground of the very wealthy, the cruise business has expanded over the last decade by appealing to the vast middle class, especially families and young adults. The polished mahogany decks and formal dinners of a bygone era have been replaced by glittering floating cities dedicated to carefree partying, gambling and drinking.

But as the industry has boomed to more than five million passengers a year, it has presented new concerns for its ports of call, its passengers and the environment, in part because of the size of its giant liners, in part because the cruise lines operate largely outside the laws of any one country. A particular problem is the allegations of sexual assaults committed by crew members.

There is no evidence that crime is rampant aboard cruise ships. The Federal Bureau of Investigation does not break out statistics on rapes on the high seas. But F.B.I. agents in Miami, the country's busiest cruise port, said they are called to investigate a shipboard sexual assault about every other week.

An examination of sexual assault cases on ships operated by the largest cruise lines, based on court records and interviews with current and former employees, law-enforcement officials, and passengers who reported assaults and their lawyers, found a pattern of coverups that often began as soon as the crime was reported at sea, in international waters where the only police are the ship's security officers.

Accused crew members are sometimes put ashore at the next port, with airfare to their home country. Industry lawyers are flown to the ship to question the accusers; and aboard ships flowing with liquor, counterclaims of consensual sex are common. The cruise lines aggressively contest lawsuits and insist on secrecy as a condition of settling.

When the Texas couple sued, the cruise line settled with a confidential agreement. Cruise line lawyers subpoenaed the Oregon girl's school records to question her character, but eventually settled a suit. Officers aboard the California woman's ship did notify the F.B.I., at her insistence, but she said the arrival of the agents was delayed until her room had been cleaned.

In another case, a Federal grand jury is investigating whether Carnival Cruise Lines, the world's largest, helped a ship's officer accused of rape get out of the country. And in 1995, a Florida appeals court found that Carnival dismissed a crew member for refusing to lie to protect the company in a civil suit brought by another seaman.

"You don't notify the F.B.I.," said Charles C. Harris, a former chief of security for Carnival. "You don't notify anybody." You start giving the victims bribes, upgrading

their cabins, giving them champagne and trying to ease them off the ship until the legal department can take over.

"Even when I knew there was a crime, I was supposed to go in there and do everything in the world to get Carnival to look innocent."

The cruise lines say that crimes are uncommon and that they do a good job of investigating when one does occur. But three years ago their lobbyists tried in Congress to win protection from most damages in sexual-assault suits and from all suits by foreign crew members.

DIFFICULTIES ARISE

ISSUES OF JURISDICTION, REPORTING OF CRIMES

In many ways these ships, as long as three football fields, are not so much floating cities as sovereign islands, operating beyond the police and regulatory jurisdiction of the nations they cruise among.

Every major cruise ship sailing out of American ports is registered with a foreign country, usually Panama or Liberia. The corporations that own them are foreign, too. The foreign registry means the ships and their owners avoid American corporate income taxes and many American laws, though more than 80 percent of their passengers are American.

Carnival Corporation, the parent of Carnival Cruise Lines, has its headquarters in Miami but is a publicly held corporation registered in Panama. Controlling interest is held by the family of its founder, Ted Arison, a billionaire who renounced his American citizenship in 1993 in part to avoid estate taxes. His son, Micky, an American citizen, is chairman. Most of Carnival's executives are American.

The other leading line, Royal Caribbean Cruises Ltd., also has its headquarters in Miami, but the corporation is registered in Liberia. Controlling interests are owned by a Bahamian partnership associated with the wealthy Pritzker family of Chicago and by a shipping company owned by a Norwegian family, the Wilhelmsens.

Lynn Martenstein, vice president for communications at Royal Caribbean, said the company would not comment on cruise ship crime or respond to any specific questions because of legal considerations.

A vice president of Carnival, Tim Gallagher, said his company reacts promptly and thoroughly any time there is an accusation of sexual misconduct involving passengers or crew members. He said only a handful of assaults occur each year, though he declined to provide numbers.

We have more than 1.5 million guests a year and it is impossible that there would not be a huge public outcry if there were any kind of serious crime problem," he said.

The F.B.I. has jurisdiction to investigate crimes in international waters on foreign ships if the vessel departed from or is headed to an American port and the crime involves an American citizen. But investigating a crime scene at sea is difficult, agents routinely wait until a ship returns to port, and jurisdictional questions often arise, law-enforcement authorities said.

And not all crimes are reported. Cruise ships are required to report only crimes and other incidents that result in serious physical injury, which does not necessarily include rape. "Unless otherwise required to do so, Carnival leaves it to the individual to decide whether to report to authorities," said Curtis J. Mase, a lawyer for Carnival.

Complaints are frequent enough, however, that Lloyd A. Lipkey, the agent in charge of the F.B.I.'s Miami squad that deals with crimes on the high seas, offered a warning to passengers: "Go on a cruise just like you go anywhere else, with your eyes open."

THE CULTURE

ABOARD SHIP, RULES BAR FRATERNIZING

Today's huge cruise ships carry 1,800 to 2,200 passengers and 700 to 800 crew members drawn from 50 or more countries, many of them poor nations. While some crew members are highly trained, particularly the officers, many are unskilled young men who work long hours seven days a week. Pay can be as little as \$500 a month; many send their wages home to support families.

Ships have rules barring fraternizing with passengers. Carnival, Mr. Gallagher said, prohibits crew members from fraternizing but encourages officers to be friendly. "The guests like it," he said.

And romance, of course, has long been one of the attractions of cruises. "Sex between crew and passengers happens all the time," said Dennis Hypolite, a musician

who worked for Carnival and Royal Caribbean for three years until he quit on Nov. 1. "Every cruise, every day. Crew go into guest cabins and guests go to crew cabins. Both seek it out, passengers and crew."

Mr. Harris, the former Carnival security chief, who now investigates shipboard crimes for lawyers of victims and insurance companies, said crew members and officers often pursue sex with female passengers.

Carnival's lawyers said Mr. Harris was a disgruntled former employee who earns his living testifying against cruise lines.

Michael D. Eriksen, a lawyer in Lake Worth, Fla., has handled more than a dozen cases of sexual assault on ships.

"Typically it starts out with an opportunity for a crew member to observe and sometimes interact with a passenger," he said. "A lot of times it will be a waiter or someone who works in room service or behind a bar."

The Oregon girl struck up a conversation with a bartender in the Ain't Misbehavin' Lounge on the Monarch of the Seas, a Royal Caribbean ship. It was her 16th birthday, and after some drinks she went with the bartender to his cabin.

The girl's parents said she was raped and sued the cruise line last year.

Royal Caribbean contended that the sex was consensual. Even so, because of the girl's age, the incident would have been a felony had it occurred in Florida. But state law was not applicable. The line also accused the girl's parents of failing to exercise reasonable care in protecting their daughter and subpoenaed the girl's school records in an attempt to discover previous problems.

When the case was settled this summer, the company insisted on a confidentiality agreement that prohibited the family or their lawyer from discussing the case, according to the lawyer, David W. Bianchi.

"People just want to get on with their lives, and when the cruise lines wave money under their noses if they promise not to talk, they always accept it," Mr. Bianchi said.

In a deposition, the bartender, Cleve Ellis, testified that crew members make a sport of having sex with passengers, Mr. Bianchi said. The deposition has not been made public because of the confidentiality order. Attempts to find Mr. Ellis were unsuccessful.

People who deal with assault victims say young girls are often targets on cruise ships. In 1996, Mr. Bianchi represented the family of a 14-year-old who said she had been raped by a crew member aboard the Fascination, a Carnival ship. After an article about the case appeared in a legal publication, Mr. Bianchi said, he was contacted by the father of a 16-year-old girl who said she had been raped by the same crew member. Both cases were settled and the crewman was dismissed after the second report, he said.

Last year, the Texas couple were on a Carnival cruise in the Caribbean to celebrate their 10th anniversary. The woman said the waiter drugged their drinks at dinner and later came to their cabin and raped her while her husband was unconscious.

The couple complained to cruise officials, who responded in part by moving them to a better cabin for the remainder of the voyage. When the ship docked in San Juan, P.R., they tried to report the incident to the police but were told they would have to contact the F.B.I. They never did.

Theodore L. Shinkle, a Carnival lawyer, said the ship's officers had assisted the couple in contacting the San Juan police and had provided them with the number for the F.B.I.

The couple filed a civil suit against Carnival. At the trial the waiter, Ashton Sylvester, a 12-year employee of Carnival, denied having sex with the woman, and witnesses said she and her husband had been drinking heavily that day. But the company settled the case just before it went to the jury.

Mr. Shinkle declined to disclose the terms of the settlement, citing a confidentiality agreement. He said Carnival's decision to settle was "just a matter of good business sense."

Rape experts say delays often occur in reporting rapes, particularly in a situation like a cruise, where the passenger could fear reprisal and there is no independent investigator or rape treatment center. But the time lag makes criminal prosecutions difficult.

"Cases reported within 72 hours offer the best forensic evidence," said Dr. Karen J. Simmons, director of the rape treatment center at Jackson Memorial Hospital in Miami. "But we see a lot of people after that because they may be afraid of reporting it or ashamed."

Dr. Simmons said the center did not keep statistics on victims from cruise ships, but she said passengers were treated with some frequency. Court files in Miami,

where most suits must be filed against the big cruise lines, indicate rapes often are not reported until too late for criminal investigation.

MANEUVERS

TRYING TO DEFLECT VICTIMS' LAWSUITS

Not everyone delays reporting. On June 19, 1997, a 35-year-old California woman aboard a Royal Caribbean ship with her parents sought help immediately.

The woman had spent some time in the ship's nightclub before returning to her cabin about 4 A.M. Unlike many cases aboard ships, where alcohol is plentiful, records show that she consumed only a non-alcoholic drink in the nightclub.

"I put my key into the slot to open the door," she later testified in court. "I put one foot in and was pushed from behind."

She said she fell onto her hands and knees but "fought to save my life." People in the cabin next door heard the commotion, but did not summon help. Her injuries were so severe that she was on crutches for two weeks, according to court records and her lawyer.

When her attacker left, she called her father and he alerted the ship's security. Within hours, the woman had identified her attacker in a line-up as Jorge Virtucio, a member of the cleaning crew.

Questioned that day by a ship's security officer and a company lawyer who had been flown in, Mr. Virtucio denied being anywhere near a passenger, saying he had been washing decks at 4 in the morning. When asked about scratches on his body, he said they were from minor work accidents.

Mr. Virtucio was indicted and, as his trial approached last May, DNA evidence linked him to the assault. He switched his story and his lawyers argued that the woman had consented to sex. A jury found him innocent.

"Our defense was that the case was a false claim and that the motive was ultimately to sue Royal Caribbean," said Fletcher Peacock, the public defender appointed to represent Mr. Virtucio at trial in Federal District Court in Miami.

The woman did sue Royal Caribbean. Her lawyer, Johnna J. Hansen, said the cruise line had appeared to cooperate with her client and had notified the F.B.I. at the woman's request. But she said that the cruise line had tried to make sure no one else on the ship heard about the incident and that F.B.I. agents were delayed for several hours before boarding the ship. During that time, she said, her client's room had been cleaned, making it harder to gather evidence.

She also said lawyers for the cruise line conferred with Mr. Virtucio's lawyers in the courtroom during the criminal trial. Mr. Peacock said Royal Caribbean maintained a neutral stance, but its lawyers were pleased by the verdict.

In court papers, Royal Caribbean said it was not responsible for a crew member's actions outside his official duties.

To counter what it regards as frivolous lawsuits, the cruise industry had its lawyers draft a measure in 1995 to restrict the ability of sexual-assault victims to collect damages in court and to prohibit foreign crew members from suing in American courts.

Representative Don Young, an Alaska Republican, introduced the measure as an amendment on the House floor and it passed without a hearing. Between 1993 and 1998, Mr. Young received at least \$29,000 from political action committees and individuals affiliated with the cruise industry, according to Federal Election Commission records.

The bill was stopped by Senator Ernest F. Hollings, Democrat of South Carolina, after lobbyists for the trial lawyers noticed the language and started a campaign against it.

One of the strongest accusations of a coverup involved a crew member who said she had been sexually assaulted. A 26-year-old Carnival employee was in her cabin last Aug. 13, nearing the end of a weeklong Caribbean cruise on the *Imagination*, when one of the ship's engineers, Yuri Senes, attacked and sodomized her, according to court records.

Her lawyer, Mr. Bianchi, said the woman reported the rape to ship's security and identified her attacker. But Carnival's lawyers said the woman initially did not want to report the episode to the authorities.

Two days later, when the ship docked in Miami, Mr. Senes was dismissed from his job and arrangements were made for him to be taken to Miami International Airport for a flight to his native Italy because his visa automatically expired when he was dismissed. By then, the female crew member had filed a complaint with the F.B.I. and agents told Carnival security personnel that they wanted to interview Mr. Senes. Mr. Mase, Carnival's lawyer, said a mix-up occurred and the suspect was taken to his flight without being questioned.

Mr. Bianchi disclosed at a court hearing last month that his client had testified before a Federal grand jury investigating whether Carnival helped the officer escape. John Schlesinger, special counsel in the United States Attorney's office, would not confirm or deny an inquiry. But he expressed amazement at the suspect's escape. "Carnival raised some eyebrows when they whisked him to the airport moments ahead of the posse," he said.

In September, Mr. Senes was indicted on Federal charges of aggravated sexual assault. He was arrested at his home in Italy and faces extradition to the United States.

Lawyers who sue cruise lines said it is common for crew members suspected of crimes to be sent home. Tracking them down for depositions and subpoenas can be expensive and difficult.

"My general experience is that the cruise lines would rather be horse-whipped than bring these perpetrators back to U.S. law enforcement," said Mr. Ericksen, the Lake Worth lawyer, who has located crew members as far away as Bombay.

There also is evidence that employees are encouraged to lie or remain silent. Charles Lipcon, a Miami lawyer who often represents crew members, said they often keep quiet about crimes because those who speak out are dismissed and sent home.

In 1995, a Florida appeals court found that Carnival had dismissed a crew member, Luis Baiton, for refusing to lie to protect the company in a civil suit brought by another seaman. "Allowing retaliation against an employee for truthful testimony, or refusing to give false testimony, strikes at the heart of the adjudicatory process," the court said.

The case did not involve sexual assault, but rather a claim filed by a crew member who was hurt on a ship. Mr. Baiton said Carnival had tried to persuade him to lie in his testimony on behalf of the crewman and dismissed him when he refused.

In September, Royal Caribbean paid a \$9 million fine after pleading guilty to a fleet-wide conspiracy to dump oil into the ocean. As part of the plea, Royal Caribbean acknowledged ordering an engineer to lie to a Federal grand jury and destroy evidence to conceal its illegal dumping.

The New York Times

February 19, 1999

CRUISE LINES REAP PROFIT FROM FAVORS IN LAW

By Douglas Frantz

MIAMI - The world's largest cruise company, the Carnival Corporation, earned \$2 billion in profits over the last three years. But the company, with headquarters here in two multistory buildings on Carnival Place, paid less than 1 percent in income taxes even though its earnings exceeded those of many Fortune 500 companies.

Royal Caribbean Cruises, the second-largest cruise company, whose headquarters overlook the Port of Miami, reported profits of \$657 million over the same time. Its financial statements do not even include a line for income taxes.

Doing business under a decades-old loophole in the Federal tax code, and protected by an increasingly powerful lobbying force, the 17 major cruise lines pay practically no income tax even though they are based in this country and 90 percent of their passengers are Americans. The cruise lines, all of them registered in foreign countries, do not observe the nation's labor laws, minimum wage law and many environmental and safety regulations.

Just last fall, by having a senator insert a single word in the Federal budget bill, the 17 cruise lines won an exemption from immigration fees worth \$20 million a year. In an amendment to another bill, a Congressman protected the foreign-registered cruise lines' monopoly on coveted permits to sail into Glacier Bay National Park in Alaska.

Over the last decade the cruise industry has grown rapidly, launching ever bigger ships carrying thousands of passengers. But now concern is growing over the megaships' impact on marine environments and the impact of the foreign-registered lines' tax advantages on struggling American-registered cruise ships.

In Congress, a potential battle is brewing on several fronts, including the foreign cruise ships' major advantage: while they earn their profits from the United States, they avoid nearly all income taxes by registering as foreign corporations and sailing under foreign flags. They also build their giant floating resorts overseas.

"These companies don't pay any of the taxes or live with any of the associated costs of operating a safe vessel and paying a decent wage," said Representative

Gene Taylor, Democrat of Mississippi, whose district includes shipbuilding companies, "and it is absurd to allow them access to the American market free of charge."

Last month the Senate majority leader, Trent Lott, a Republican who is also from Mississippi, called on the Clinton Administration to work with Congress to strengthen the American maritime industry by re-examining the advantages enjoyed by foreign companies.

"This nation's tax policies should promote business growth, not stifle it," Mr. Lott said.

And this month, two Democrats in the House, Representatives John A. Dingell of Michigan and Henry A. Waxman of California, initiated an investigation by the Commerce and Government Reform Committees into illegal dumping of oily waste and other pollutants by cruise ships, to determine whether the United States should strengthen its regulation of the industry.

"The major companies may argue that they have environmental programs in place," Mr. Dingell said, "but as long as these practices persist, it calls into question either the quality of the plans, or the commitment of senior management, or both."

Industry representatives respond that cruise lines adhere to strict international environmental and safety standards that are enforced by the International Maritime Organization, a regulatory agency affiliated with the United Nations. And they say immunity from American taxes is a long-recognized element of international law on ocean-going trade.

Cruise lines pay more than \$66 million a year in fees to American ports, as well as other taxes and fees, according to the industry. And a new study done for the industry found that cruise lines bought \$6.6 billion worth of American goods and services in 1997, generating 176,433 jobs.

"We generate billions of dollars every year here in the U.S. economy, and the United States is a major beneficiary of our industry," said Cynthia A. Colenda, president of the International Council of Cruise Lines, which represents the major cruise lines. "This industry is a revenue generator, and it helps economies throughout this country."

But while the 17 cruise lines flying foreign flags and some of their suppliers have prospered, the American maritime industry has fallen on hard times. The only cruise ship flying an American flag is the 50-year-old Independence, which travels among the Hawaiian Islands, and no deep-ocean cruise ship has been built in the United States for at least 40 years.

TAX DISADVANTAGE FOR AMERICAN LINES

Efforts are under way to develop an American-flag cruise industry, but American shipping companies that must pay United States taxes and wages face serious disadvantages.

The United States corporate income tax rate is 35 percent, though most corporations pay a modestly lower rate through various deductions. If Carnival was an American corporation paying taxes at the 35 percent rate -- or even if it was a foreign corporation in a different business here, it would have paid about \$700 million in taxes to the United States over the last three years on \$2 billion in net income.

Instead, Carnival is registered in Panama, which does not impose a business income tax, and the company paid only \$15 million in income taxes -- on the earnings of one division, which has hotels and tour operations in the United States and so is not exempt from taxes.

The tax break is in a section of the Internal Revenue Code that exempts foreign corporations' income from ships and aircraft from taxation, if the country in which the corporation is organized offers the equivalent exemption to American corporations. The rules were set up to promote international shipping and air trade.

Cruise companies have been able to take unique advantage of the provision by registering in small countries like Liberia, Panama and the Bahamas, which do not impose a corporate income tax. Major airlines like British Airways or Lufthansa do not pay United States taxes either, under the provision, but unlike the cruise lines, they are not based in the United States and they pay substantial taxes in their home countries.

And American-registered cruise companies do not benefit from a reciprocal exemption because they remain subject to United States taxes, even on their international business.

"Our members are fully subject to U.S. income taxes, even if we take our vessels into foreign waters," said Edmund B. Welch, legislative director for the Passenger Vessel Association, the trade group for passenger ships flying under American flags, which are mostly sightseeing and excursion vessels.

"We have ships relocate from the Pacific Northwest down to Mexico in the winter," Mr. Welch said, "but they still pay U.S. taxes on their Mexican operations."

Foreign-registered cruise lines also pay workers far less than their American counterparts. Their crew members, mainly from developing countries, routinely work 10 to 12 hours a day, 7 days a week, for as little as \$400 a month, according to a survey last year by Seafarers' House, a nonprofit agency that ministers to workers at Florida ports.

BIG SPENDING ON LOBBYING

There has never been a serious effort to alter the tax rules, and the industry has developed an effective lobbying presence in Washington to protect its interests.

While all the members of the International Council of Cruise Lines are foreign businesses, the campaign finance law allows the organization to have a political action committee and raise donations for it from the cruise line employees who are American citizens. In the 1997-98 campaign, the group donated \$166,146 to House and Senate candidates, according to the Center for Responsive Politics, a non-partisan organization.

The council spent more on lobbying. In its latest full-year report filed with the Senate, it said it spent \$557,023 on lobbying in 1997.

Most of the money, \$380,000, went to the firm Alcalde & Fay for work on tax and immigration issues. The firm, run by Hector Alcalde, a former Congressional staff member, received an additional \$200,000 in the first half of 1998. Mr. Alcalde is the father of Cynthia Colenda, who worked at his firm before taking over as president of the International Council of Cruise Lines.

The effectiveness of the lobbying was evident in the budget bill for the current fiscal year. An innocuous-looking item, Section 114, amended the immigration act by inserting a single word, "State," and a comma. Doing so eliminated as much as \$20 million a year in fees from cruise lines.

The Immigration and Naturalization Service had been authorized to assess \$6 per passenger to cover inspection costs for people arriving in American ports on cruise ships, unless their cruise had begun in Canada, Mexico or a United States territory. Adding "state" expanded the exemption to passengers whose travel started in the United States — eliminating the fee for all but the tiny number of transoceanic passengers.

The immigration service calculated that the change cost it \$20 million a year, said a spokesman, Greg Gagne.

"We were aware that it was going in," Mr. Gagne said, "but it certainly wasn't our choice or our preference. We think all carriers should share in the cost equally."

In fact, however, the fee had not been assessed in recent years. Mr. Gagne and industry representatives said they did not know why.

SECRECY BEHIND THE CHANGES

The change originated in the Senate, but records do not identify its author. Senator Ted Stevens, the Alaska Republican who is chairman of the Appropriations Committee, said through a spokeswoman that he knew who wrote the section and that he had approved it, but he refused to identify the senator. "Senator Stevens is respecting the confidentiality rules of the Senate," said the spokeswoman, Jen Siciliano.

Mr. Taylor ran into similar secrecy when he tried to close a loophole that allows foreign-registered cruise lines to operate gambling cruises out of American ports.

Under a century-old law designed to protect the American shipping industry, ships flying foreign flags cannot travel between American ports, or leave from and return to the same American port, unless they visit a foreign port as part of the voyage. That is why foreign cruise ships sailing from Miami or San Diego stop at a foreign location before returning, a practice critics call "cleansing the voyage" for tax purposes.

But the Customs Service ruled that foreign vessels meet the requirement in some cases if they merely sail three miles out into international waters before returning. That ruling allows foreign ships to operate gambling "cruises to nowhere" that depart from an American port, travel briefly into international waters and return to the same port without visiting another country.

Those types of cruises are operated by smaller foreign cruise lines operating from American ports, not the major lines.

Seeking to claim that business for American ships, Representative Taylor won House approval three times, from 1993 to 1995, for legislation that would require foreign-registered vessels to stop at a foreign port even on a "cruise to nowhere."

Each time the bill got to the Senate, at least one anonymous senator put a hold on it, blocking any vote. Mr. Taylor said he was unable to identify who stopped the measure, but he said he knew who was behind it. "The first time I went to pass that bill in the House, I will never forget what happened to me," Mr. Taylor said, describing a 1993 incident. "As I'm walking across the street to go handle the bill on the House floor, the chief lobbyist for the foreign cruise industry comes up and offers me and my family a free cruise if I withdraw my bill. He says, 'It's just so that you get to know us.' It sure sounded like a bribe to me." Mr. Taylor said the lobbyist was Mr. Alcalde.

In a written response, Mr. Alcalde called the accusation reprehensible. He said that the Congressman misunderstood what he said, and that he did not even have the authority to offer anyone a free cruise.

"It is true that I suggested he inspect the cruise ships," Mr. Alcalde said. "It is important that to take a position as a legislator, one must understand the industries that they are attempting to regulate."

"It is also true that I suggested that they are an excellent vacation, especially for families. Never did I offer Mr. Taylor any favor or incentive, and I am truly sorry that he misunderstood those words."

The cruise trade group opposed Mr. Taylor's bill in 1992, telling Congress it feared that the restrictions could be applied too broadly to its members. The next year, the group said it could support the bill with clarifications spelling out that it was intended for the "cruise to nowhere" trade.

PERMIT ADVANTAGE IN GLACIER PARK

The industry's influence also paid dividends last October when Representative Don Young, Republican of Alaska, preserved the monopoly held by foreign cruise lines on entry permits to Glacier Bay National Park, a popular cruise destination.

In an effort to increase competition for concession business at national parks, Congress last year eliminated a long-standing provision that allowed existing operators to retain concessions by matching the best offer from any other company. The provision made it virtually impossible for an outside company to win a concession.

Among the parks that would have been opened to competition was Glacier Bay, where concerns over the environment and wildlife have restricted entry permits for ships. The day the bill passed the House, Mr. Young, chairman of the Committee on Resources, inserted an amendment extending the preference for operators at Glacier Bay until 2009.

Mr. Young has received about \$45,000 in contributions from cruise industry employees in recent years. One of his former staff members also works as the chief lobbyist for Holland American Line, the division of Carnival that has the most entry permits for Glacier Bay.

Efforts to interview Mr. Young over the course of a week were unsuccessful. Last fall, he said that retaining the preference was necessary to avoid disrupting cruises and to protect Alaskan tourism.

"Cruise ship companies depend on a smooth process for bidding on permits to enter Glacier Bay in order to accommodate the thousands of passengers who visit this park every year," he said.

Kevin Appgar, the National Park Service concession manager for Alaska, said in an interview that the exemption was anti-competitive and not necessary to insure smooth cruise operations.

"I don't see any justification for it," Mr. Appgar said. "The industry made a special pleading and got special treatment over all the other large concessions nationwide."

Three American companies with smaller ships submitted proposals last year for some of 42 new cruise-ship permits being awarded by the Park Service.

"The big operators still have a preference and we expect our application to be denied," said Gary Sorrels, vice president of American West Steamboat in Seattle, which is planning a 250-passenger cruise ship.

Officials at the National Park Service in Washington said they expected to award most of the new permits to Holland America, which they said submitted the best proposal, within the next few weeks. The company promised new studies on the impact of cruise ship noise on whales and said it would finance an on-site equipment and personnel to respond to an oil spill in the park.

The award is likely despite Holland America's guilty plea last August to discharging oily waste in the waters of Alaska's Inside Passage.

"We're aware of the dumping," said Bill Pierce, the Alaska desk officer at the park service, "but Holland America's proposal was very good."

Senator HUTCHISON. Now I would call on the good Senator from Alaska, Senator Frank Murkowski, who is also a cosponsor of this legislation, and whose State is very much affected, and I think would open up a lot of opportunities if we could pass this legislation, having been a visitor to Alaska, I know that a lot of people would like to have the opportunity to cruise the Alaska shore, so thank you, Mr. Chairman.

**STATEMENT OF HON. FRANK MURKOWSKI,
U.S. SENATOR FROM ALASKA**

Senator MURKOWSKI. Let me thank you, Madam Chairman, and also thank Senator McCain for the efforts on this legislation. I think Alaska and Hawaii are particularly sensitive to the impacts of maritime legislation. We have lived under the Jones Act for a long, long time, since the early 1900's.

The Jones Act, of course, is the cabotage law, which mandates that the movement of goods between two American ports take place in a U.S. flagged vessel, and as a consequence we do not move Alaskan coal to Hawaii because it is cost-prohibitive.

We are not allowed to move Canadian goods—excuse me, U.S. goods from the West Coast, the State of Washington, up to Alaska in a Canadian ship simply because it is a violation of the Jones Act, and so in order for us to transit, why, we have a foreign vessel between a U.S. and foreign port, but not to other U.S. ports. That is a protectionist type of legislation that has been able to foster the maritime industry in the state to what it is today, and what it is today is somewhat limited.

As you know, all the oil that moves from Alaska down the West Coast, which is about 20 percent of the total crude oil produced in the United States, moves in U.S.-flagged vessels, and that is obviously a significant contributor to the American merchant marine.

Now, the Passenger Shipping Act has a similar prohibition. It says passengers cannot move between two U.S. ports unless it is on a U.S. vessel and as a consequence, Madam Chairman, we have, for all practical purposes, eliminated any sailings from U.S. ports by any major vessels. The only exception to that is one vessel that is serving the Hawaiian Islands.

As to what we are attempting to do here, I would prefer a simpler approach, but I recognize the difficulties associated with this legislation. As many of you know, the passenger business has become a significant outlet for vacationers seeking a leisure experience, and the industry I think has done an extraordinary job in meeting the requirements of the leisure public who are willing to spend a week or so on a ship.

I think right now we have about 92 ships that are foreign-documented vessels with foreign crews traveling out of U.S. to a foreign port. I am told that the industry has topped \$11 billion in 1997, and the cruise industry spends more than \$6 billion annually nationwide, and spends more than \$363 million annually in my State of Alaska, and spends more than \$2 billion in Florida, to give you some idea of the magnitude of the contribution.

These figures I think demonstrate beyond a question that it is a big business. It is good to have such spending in our States, but it is also obvious that if the industry is spending more than \$60

billion a year in direct purchases of goods and services, then the U.S. is already a major cruise-ship market.

And let us not forget the other figure. They carry more than 4 million passengers, most of whom are U.S. passengers. The industry is expected to grow by more than 50 percent over the coming years. The 1997 study indicated the industry planned as many as 41 new vessels. I do not know whether that is an overcapacity, but clearly, they know the risk, and they are looking at increasing passenger capacity by more than 40 percent between 1997 and the year 2000.

It is unfortunate, but it is a fact that all of the cruise lines that I have discussed operate foreign vessels exclusively. That is just a sad necessity, because it is not financially possible for a company to operate the U.S.-flagged vessels that are required by the Passenger Services Act in its current form.

The industry is dominated by Carnival Corporation, which operates a number of cruise lines, Holland-American Lines among them, but Royal Caribbean is also a major factor in the industry, about \$1 billion and net earnings of about \$331 million last year.

So what we have is an industry that is focused on U.S. passengers in a trade that has become extremely lucrative. That being the case, the question is, why are there no U.S.-flagged vessels? As I have indicated, there is an old one in Hawaii, but the answer is, it costs too much to build vessels in the United States and man them with U.S. crews.

I hope the witnesses will give us enough detail so we can understand whether this legislation as proposed is designed to benefit one company in particular, which says that it will commit itself to build and crew in the U.S. if S. 1510 becomes law. I think we should examine the cost of U.S. construction and manning to determine what factors are relevant in this.

It is my understanding that there is a consideration of a substantial contribution from MARAD in this proposal, where MARAD would provide Government assistance, financing, and so forth. It is also my understanding that there is a potential of substantial union pension funds being invested in this proposal. The latter is the business of the unions, which is quite appropriate, but nevertheless not everyone has access to that type of funding capability.

Madam Chairman, I do not know if cost alone is the only reason we have no U.S. vessels at present, but I think we have to look closely at this legislation, which may put one company in the U.S. trade, but the question is, can it be expanded to encourage other companies to do the same?

On another note, given the tremendous growth and extraordinary profits of the current foreign flag operators, perhaps it is simply that it is more profitable to operate under foreign flags which minimize a company's liability for U.S. taxes, as well as its obligation to employ U.S. citizens. As we know, the current ships do not employ U.S. labor to any great extent, and their tax situation is such that they pay taxes on revenue generated within the United States but not on earnings from voyages from foreign ports.

So I am not opposed to having my State, or any State for that matter, benefit from the dollars brought in by foreign-flagged vessels. I would like to see us competitive, and this legislation may be

a step in the right direction, and that is why I am supporting it at this time.

As it stands today, the Passenger Service Act does not protect American industry under any terms and circumstances. It merely holds it back, to the detriment, I think, of all American ports, and that is not good policy. Changing it is. And when I say American ports, I am talking about American jobs as well, and so I applaud those who have the forward-looking vision to support this bill, but I would also suggest, Madam Chairman, that we get a full understanding of the financing which is suggested in this proposed legislation.

I thank the chair.

Senator HUTCHISON. Thank you, Senator Murkowski, and thank you for your leadership on this issue, and I do hope we can come to a resolution that will be in everyone's interest, and certainly with a fair taxation and fair access to a level playing field in the regulatory arena. I think that is certainly a given.

Now, Senator Abraham has graciously agreed to let Senator Brownback proceed.

Excuse me, Senator Cleland. Did you come before Senator Abraham? I am sorry.

Senator CLELAND. Madam Chairman, he was first.

Senator HUTCHISON. Let me just ask you, Senator Brownback has asked to go first because he has another hearing.

Senator CLELAND. That is fine.

Senator HUTCHISON. All right, Senator Brownback.

**STATEMENT OF HON. SAM BROWNBACK,
U.S. SENATOR FROM KANSAS**

Senator BROWNBACK. Madam Chair, thank you very much. I want to thank my colleagues, Senator Cleland and Senator Abraham, for allowing me to go out of order. I only want to take a couple of minutes. I did want to comment briefly that I think this is an important bill, and it is an important hearing for us to have on this issue, and I am supportive of it.

I have got a letter that I am going to introduce into the record, signed by five of our colleagues and myself, supporting this effort on opening this up, but we would also like to take the spirit embodied in this bill, in S. 1510. We hope that the Congress will soon turn to the deregulation of coastwise transportation of freight, which is presently restricted by the Merchant Marine Act of 1929, which of course is best known as the Jones Act.

The chairman, Chairman McCain has held a hearing on this previously. It really hurts American farmers. Farmers and other bulk shippers in the agricultural heartland of America are affected by the Jones Act, because it removes competitive shipping options that could otherwise be available if we had a viable deep-water fleet engaged in coast-wise trade, and I want to give you one small example of what happened.

This impact was confirmed by a decision earlier this year by poultry and swine producers in North Carolina to buy 75,000 tons of soybean meal from Brazil. This in the midst of a terrible crisis farmers are suffering right now in the United States and our low prices.

The livestock producers chose to buy foreign grain because counterproductive shipping restrictions prevented them from buying U.S. grain at a reasonable cost and being able to ship it into North Carolina. It was cheaper for them to ship it from Brazil than to get it from Ohio, Indiana, and Illinois, and the limited shipping options we have there because of Jones Act problems.

Madam Chairman, this has been a problem for the agricultural community for some period of time. It just continues to get worse as the deep water fleet has grown smaller and smaller, so I would hope that as we look at this act on tourism, we would also take a look at the Jones Act and its impact on agriculture, and our lack of having competitive options for a deep water fleet to move agricultural bulk commodities within the United States.

With that, I am going to submit this letter and my full statement in the record, and again thank my colleagues for allowing me to present this out of step.

[The prepared statement of Senator Brownback and joint letter of support for S. 1510 follow:]

PREPARED STATEMENT OF HON. SAM BROWNBACK, U.S. SENATOR FROM KANSAS

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UNITED STATES SENATE

WASHINGTON, DC 20510

JOINT LETTER OF SUPPORT FOR S. 1510

THE UNITED STATES CRUISE SHIP TOURISM DEVELOPMENT OF 1999

The undersigned Senators support S. 1510, and hope to see it become law this year. S. 1510. The United States Cruise Ship Tourism Development Act of 1999 re-

moves an artificial regulatory barrier to commerce in the cruise ship industry. As the current economic recovery rolls on, Americans will have more disposable income to spend on leisure items like cruises, and cruise ship operators should have the freedom to take these customers where they want to go. S. 1510 will break down unnatural, protectionist barriers to coastwise commerce in the cruise industry. Congress should act expeditiously on S. 1510 so that the traveling public can benefit from further deregulation of this industry.

In the spirit embodied in S. 1510, we hope Congress will also soon turn to the deregulation of the coastwise transportation of freight, which is presently restricted by the Merchant Marine Act of 1929, known as the Jones Act. Farmers and other bulk shippers in the agricultural heartland of America are affected by the Jones Act because it removes competitive shipping options that could otherwise be available if we had a viable deepwater fleet engaged in coastwise trade. That fleet today is small, antiquated and unserviceable. This is confirmed by the decision earlier this year by poultry and swine producers in North Carolina to buy 75,000 tons of soybean meal from Brazil. This, in the midst of the terrible crisis farmers are suffering right now. The North Carolina livestock producers chose to buy foreign grain because counterproductive shipping restrictions prevented them from buying U.S. grain at a reasonable cost. No doubt, soybean producers in states like Ohio, Indiana, and Illinois that would normally supply North Carolina livestock producers are counting the cost of opportunity lost to the Jones Act.

The undersigned Senators look forward to supporting passage of S. 1510. Hopefully, the example of deregulation of the U.S. cruise ship industry will lead Congress to examine the moribund domestic coastwise deepwater shipping industry.

Sam Brownback
Conrad Burns
Richard Lugar

Jesse Helms
Pat Roberts
Peter Fitzgerald

Senator HUTCHISON. Thank you very much, Senator Brownback.
Senator Abraham.

**STATEMENT OF HON. SPENCER ABRAHAM,
U.S. SENATOR FROM MICHIGAN**

Senator ABRAHAM. Thank you, Madam Chairman. I first want to begin by indicating that I think the potential for significant expansion of the cruise industry in our country exists. I do not think it exists just in the areas which we have typically come to think of as the areas of cruise destinations or cruise activities, but also in a variety of other areas, including the Great Lakes, where obviously I have a special interest and excitement about that potential.

In fact, the chairman was recently a visitor in an area of our State which I think has great potential as a possible launching place or debarkation point for cruise activities.

Senator HUTCHISON. If the Senator would yield, I would say that I observed that your Lakes are bigger than our Gulf. I certainly think it would be a wonderful opportunity.

Senator ABRAHAM. There is a lot of interest in that, and I think probably a number of the witnesses here are not only aware of it, they may even comment on that as part of the potential for expansion.

One of the concerns I have at the inception, as we look at this legislation, is the extent to which it would really be applicable, or have any potential to apply in the Great Lakes, specifically because of the size of the vessels that are involved, and some of the rules that would be built into this legislation. So I have some concerns about the mechanics of the legislation as to whether or not it would even make an impact, or have a potential to have impact in our area, where I think the potential for growth is significant.

I also would say, with all due respect to the Senator from Kansas, that if the moving of this legislation is going to be linked ei-

ther in a direct sense or in an indirect sense by virtue of sort of the precedent it might set, or the sort of atmosphere it might create to efforts to change the Jones Act with respect to the cargo operations and industries in our country, I think it would almost certainly preclude the legislation or any form of this legislation from going forward.

Because I have a slightly different perspective on the Jones Act than Senator Brownback, although I certainly respect his views, I think that this type of legislation will not move if it becomes perceived as either a camel's nose under the tent or a precursor to a broader type of Jones Act reform.

So I would hope that we would, as any process moves forward here, be very clear about that, because I think anything, if we broaden the scope of the ultimate objectives here, it certainly makes it impossible to put together the kind of consensus and bipartisan support that would be needed for passage, and that, too, will be something that I am going to be interested in following as we move ahead.

But I certainly think that as a committee our efforts, any efforts we can engage in to try to identify ways to assist in the development of this cruise industry in our country is a really wise topic on which for us to focus. I think it is a place where we have the potential to make an impact, and so I thank you for holding the hearing and look forward to hearing from our witnesses.

Senator HUTCHISON. Thank you very much.

Senator Cleland.

**STATEMENT OF HON. MAX CLELAND,
U.S. SENATOR FROM GEORGIA**

Senator CLELAND. Thank you, Madam Chairman. I just want to thank you for your interest and leadership on this important issue. I realize that you would rather see an end to the Passenger Vessel Services Act, but I thank you for taking a look at other approaches to increase consumer access to the cruise market. The passenger vessel industry has seen drastic changes in the past half-century.

It is disappointing to note that the U.S. once held a considerable share in the cruise industry, especially in the trans-Atlantic voyages, and while the advent of affordable air travel replaced the ocean liners carrying passengers to Europe, the industry was able to shift its focus to entertainment and tourism.

Unfortunately, the shift in focus all but eliminated the U.S.-flagged cruise industry. In 1960, there were 31 American passenger vessels. Today, there is only one. Certainly the operating advantages of international vessels over U.S. vessels prohibit American cruise lines from competing on a level playing field with vessels registered under the flag of convenience. U.S. vessels are held to a much higher standard. They must comply with strict U.S. environmental and labor laws, are subject to U.S. taxation, and clearly fall under the jurisdiction of the American legal system.

While it may be unfeasible for American cruise ships to compete in foreign markets, I believe the domestic trade holds immense potential. I am greatly encouraged by recent actions in the Hawaiian Islands and that passenger vessel market to revitalize the U.S.-flagged cruise industry. This effort includes the registering of sev-

eral cruise vessels under the U.S. flag, and the commitment to buildup to five coastal cruise vessels to be operated in the domestic market.

The Hawaii legislation was a result of industry leaders working together to find a win-win solution to these problems. I commend their efforts, and encourage their continued involvement in the revitalization of the U.S.-flagged cruise industry.

In my home State of Georgia, there is great optimism for the establishment of a domestic cruise market. The City of Savannah is currently using an old cargo terminal for a temporary cruise terminal, and they are in the process of finding funds to build a dedicated cruise terminal as soon as possible. With the construction of a maritime conference center and hotel on Hutchison Island, the time is right to pursue this possibility.

Recently, Savannah had the opportunity to host a cruise ship, the 1,200-passenger vessel ZENITH, operated by Celebrity Cruises. At the height of hurricane season, low pressure kept the ZENITH from calling on Bermuda as scheduled, and its contingency port of Nassau in the Bahamas. After seeking refuge from the storm in Port Canaveral, the ZENITH had planned to sail north to Savannah before returning to New York.

As I understand it, current law prohibited the ZENITH from calling on Savannah due to the absence of a visit to a foreign port. I must say, it is curious that an act of Congress superseded an act of God in this case.

The Savannah Convention Center has since estimated that the ZENITH could have contributed as much as \$1/4 million to the local economy. I regret the loss of revenue to the Savannah economy, and yet I am reluctant to go against our fundamental commitment to support a strong U.S. merchant marine. We are here today in order to attempt to find a balance between a vital maritime policy and the future of domestic passenger commerce.

I want to thank the chairman for opening the dialog on how to revive the U.S. passenger vessel fleet. I look forward to working with my colleagues in order to find a viable, long-term solution to revitalize the American passenger vessel industry while maintaining and enhancing the position of American workers, both of which have suffered from a lack of attention in Congress for over 4 decades.

Thank you, Madam Chairman.

Senator HUTCHISON. Thank you, Senator Cleland. Senator Gorton.

**STATEMENT OF HON. SLADE GORTON,
U.S. SENATOR FROM WASHINGTON**

Senator GORTON. Well, Madam Chairman, welcome to the spider web.

[Laughter.]

Senator GORTON. I was looking at our staff memorandum on his subject, and the first thing that came to mind is that we are now dealing with the second oldest statute that still creates a great deal of controversy. Every year, we have eloquent debates on the necessity to amend the Mining Act of 1872. It is exactly 14 years older than the Passenger Vessel Services Act, and I am not sure which

one I would place my money on for any actual revisions within the foreseeable future.

I have been involved in sponsoring bills of this nature for some time, and Madam Chairman, if I may say, they all seem to fall into two categories. Category 1 is a bill relating to passenger vessels that would actually change the way in which business is conducted in the real world, and they are opposed by so many people they have no chance of passage.

Category 2 are statutes that seem to do something but would not change the way in which the world operates, and they have at least a remote chance of passage. I am not at all sure that you have not combined category 1 and 2 in this case with something with very little chance of passing, the success of which I find relatively dubious, and it certainly is not for want of trying.

It does seem to me, as it does to almost everyone else, that when we have so significant an industry, or a business as this one, that we ought to be able to manage it in a way that provides more jobs and economic opportunity for citizens of the United States as well as even greater choices for American citizens than the type of cruises in which they are engaged, but no matter how we try to do it, there is some major economic interest in the United States whose ox is gored by an effective way of going at this, at attempting to meet this challenge.

Given the secondary or tertiary nature of this debate—and by that I do not mean to deprecate its importance, except to say that it is not something that any Senate Majority Leader is going to allow the Senate to spend a month on the floor debating in the face of a filibuster, that it is just extremely difficult to get from here to there. To get everyone, to get a panel, a representative panel, all who would say the bill was a good idea would be a true miracle, but as I say, I suspect would not really have any impact on the way in which the cruise ship industry is actually conducted.

So I guess I have to say, I am very interested, I admire your courage and the courage of your cosponsors on this bill, but I strongly suspect we have not found a way to change the business and get enough approval to get a bill passed yet, but maybe we will some day. After all, it is only 113 years since we last dealt with this issue in any effective fashion. Maybe we will find the charm.

Senator HUTCHISON. Well, on that note——

[Laughter.]

Senator HUTCHISON.—I would love to hear the testimony on the bill that the Senator from Washington says has very little to remote chance of passage. That is a wide area of possibility.

But let me just say that I do think there is a chance. We all want more jobs. We all want more tourism. That is good for every single State that is affected in our country, it is good for American workers, and I think a 3-year try is perhaps the window.

This does not permanentize the issue, but it does say, until we have a shipbuilding industry that is viable for passenger ships in our country, let us see if we can do something good for shipbuilders and have repairs there, and give them a chance to gear up, and if we can get a shipbuilder in America that will make cruise ships, then after 3 years they will be able to gear up.

So I think there is a window here, and maybe it is because of my small tenure as compared to yours, Senator Gorton, that I do think there is a chance here, but it will take everyone pulling together, because I think what you said is totally true about the patience of our Majority Leader to have a 1-month filibuster on this issue. Talk about remote, that is remote, but if we can have everyone that has an interest, from the unions to the industry, to the shipbuilders, then working together and agreeing out of committee on a bill that will have something good in it for each industry that would not be there under present law, that is the way to do it.

So I want to hear today from the six of you who give very different opinions, and see if there is a way that we can satisfy each of you that there is something that can be added that you would not have if we do not change the law, and realize that a lot of other opportunities for people not sitting at the table would be presented if we could have this chance.

So with that, I will call in the order that I have it, listed on my sheet that I did not prepare, in order to show you this was a lottery, I am just going to go in that order, and I would call first on Ms. Cynthia Colenda, the President of the International Council of Cruise Lines.

**STATEMENT OF CYNTHIA A. COLEND, PRESIDENT,
INTERNATIONAL COUNCIL OF CRUISE LINES**

Ms. COLEND. Good morning, Madam Chairman and distinguished members of the subcommittee. It is a pleasure for me to be here. I am here representing International Council of Cruise Lines, and we are pleased to outline to the Committee ICCL's position on S. 1510, the Cruise Ship Tourism Development Act, which amends the Passenger Vessel Services Act to allow foreign-flagged vessels to carry passengers in the United States coast-wise trade.

ICCL is a nonprofit trade organization that represents the interest of 17 of the largest cruise lines operating in the North American cruise market. We also represent over 60 associate member companies that are cruise industry business partners and suppliers located throughout the United States.

ICCL member cruise lines serve major ports of the United States, and we call on more than 200 ports worldwide. Last year, ICCL member cruise vessels carried approximately 5 million passengers on 95 vessels.

We welcome the opportunity to be here before the Committee today to discuss our industry's perspectives on this legislation. The bill, S. 1510, would modify the Passenger Vessel Services Act and allow certain qualified vessels to engage in coast-wise trade. ICCL has been requested to present its views on how any changes to the PSA would impact our industry.

Since the foreign passenger vessel industry from its inception has been engaged in international voyages, modification to the PSA would not change our current operations, nor encourage our members to engage in coast-wise trade. For this reason, ICCL has not taken a position on any legislation that amends PSA, since we do not anticipate any significant changes to our members' current itineraries.

We understand the objectives the proponents of the legislation are trying to achieve. The Cruise America Coalition is comprised of tourism interests, U.S. ports, many other travel industry partners which the passenger cruise industry works on a host of important issues.

The members of the coalition are interested in bringing expanded economic development to their cities, States, and regions. We do not believe that a reformed PSA is necessary to achieve these objectives. We encourage growth in all segments of the cruise industry, and with the slated expansion of our members' fleets, passenger vessels will bring more business and economic activity to additional U.S. ports of call without any modifications to U.S. law.

The ICCL member cruise lines are operating in an international market-driven competitive environment. Global passenger cruise capacity has significantly increased in the past several years. Last year, there were approximately 223 vessels that carried 9-1/2 million passengers worldwide.

Global capacity in the past 6 years has increased by almost 50 percent. Today's passenger vessel capacity is based on what the market will support. While a significant part of our business continues to be in the Caribbean, Alaska, Bermuda, and Trans-Canal, the largest growth has been experienced outside North America in the Trans-Atlantic, European, Southeast Asia, and Far East regions.

During consideration of this important issue, we would like to provide the committee with information regarding the economic benefits that our industry operations generate in the United States. A study that was recently conducted by PricewaterhouseCoopers concluded that the total economic impact of the cruise industry, their passengers, and their U.S. suppliers, reached \$11.6 billion in 1997.

This spending was responsible for creating 176,000 jobs for U.S. citizens. With the addition of 47 new vessels by the year 2002, both industry expenditures and the number of U.S. jobs created are significantly going to increase as well.

A second study, which many of the Members mentioned today, looked at the direct spending that the cruise industry and its passengers spent in select States. That number reached almost \$7 billion in 1997, and extended into all 50 States.

It is interesting to note that in the State of Texas we had significant expenditures to the tune of millions of dollars. We also had major expenditures throughout the U.S.

The cruise industry is proud of the economic partnerships we have developed with other U.S. industries across the country. While ICCL member vessels spend most of their time at sea, our member lines are responsible for stimulating business activity not only in the U.S. coastal States but in other regions of the country.

Cruise industry operations depend on the vital support of many U.S. businesses and service sector suppliers. In conclusion, as the industry continues to expand, it will be able to provide more opportunities for businesses located throughout the United States, and in addition, as the industry brings new vessels to the North America market, it will provide expanded service to additional U.S. ports and offer new itineraries for cruise passengers.

We appreciate the opportunity to express our views, and will be happy to answer any questions. Thank you very much.
[The prepared statement of Ms. Colenda follows:]

PREPARED STATEMENT OF CYNTHIA A. COLEND, PRESIDENT,
INTERNATIONAL COUNCIL OF CRUISE LINES

On behalf of the International Council of Cruise Lines (ICCL), we are pleased to submit this statement outlining ICCL's position on S. 1510, the Cruise Ship Tourism Development Act of 1999, which amends the Passenger Vessel Services Act (PSA) to allow foreign-flag vessels to carry passengers in United States coastwise trade.

ICCL is a non-profit trade association that represents the interests of 17 of the largest cruise lines operating in the North American cruise market and over 60 Associate Member companies that are cruise industry business partners and suppliers. ICCL member cruise lines serve major ports in the United States and call on more than 200 ports around the world. Last year, ICCL's cruise vessel operators carried more than 5 million passengers on 94 vessels.

We welcome the opportunity to appear before the Committee today to discuss our industry perspectives on S. 1510. This legislation would modify the Passenger Services Act and allow qualified vessels to engage in coastwise trade. ICCL has been requested to present its views on how any changes to the PSA would impact our industry.

Since the foreign passenger vessel industry, from its inception, has been engaged in international voyages, modifications to the PSA would not change our current operations nor encourage our member's to engage in coastwise trade. For this reason, ICCL has not taken a position on any legislation that amends the PSA since we do not anticipate any significant changes in our member's cruise itineraries.

We understand the objectives that proponents of this legislation are trying to achieve. The Cruise America Coalition is comprised of tourism interest, U.S. ports, and many other travel industry partners with which the passenger cruise industry works very closely on a host of other important issues. The members of this coalition are interested in bringing expanded economic development to their cities, states and regions. We do not believe that a reformed PSA is necessary to achieve these objectives. We encourage growth in all segments of the cruise industry and, with the slated expansion of our member's fleets, passenger vessels will bring more business and economic activity to additional U.S. ports of call without any modifications to U.S. law.

The ICCL member cruise lines are operating in an international, market-driven, competitive environment. Global passenger cruise business has significantly increased in the past several years. Last year, over 223 vessels carried approximately 9.5 million passengers worldwide. Global capacity in the past six years has increased by almost 50 percent. Today, passenger vessel capacity is based upon what the market will support. While a significant part of the business continues to remain in the Caribbean, Alaska, Bermuda, and Trans Canal cruises, the largest growth has been experienced outside North American in the Transatlantic, Europe, Southeast Asia and Far East regions.

During consideration of this important issue, we would like to provide the Committee with information regarding the economic benefits that our industry operations generate in the United States. A study recently updated by PricewaterhouseCoopers (PwC) and Wharton Economic Forecasting Associates (WEFA), concluded that the total economic impact of the cruise lines, their passengers, and their U.S. suppliers reached **\$11.6 billion in 1997**. This spending was responsible for generating over 176,000 jobs for U.S. citizens. With the addition of 47 new ICCL member vessels by the year 2002, both industry expenditures and the number of jobs created are expected to significantly increase as well.

The PwC and WEFA study not only examined the cruise industry's nationwide purchases of U.S. goods and services, it also examined the state by state impact of industry purchases. The study concluded that the direct spending of the cruise industry and its passenger was almost **\$7 billion in 1997** and **extended into all 50 States**. The top industries benefiting from the cruise industry are manufacturing; finance, insurance and real estate; and transportation, communications and utilities. A listing of cruise industry expenditures by state and by industry is enclosed in the Appendices.

The cruise industry is proud of the economic partnerships we have developed with other U.S. industries across the country. While ICCL member vessels spend most of their time at sea, our member lines are responsible for stimulating business activ-

ity not only in U.S. coastal states but also in other regions of the country. Cruise industry operations depend on the vital support of many U.S. business and service sector suppliers. Industry purchases range from California, Alaska and Washington state, to Texas, Louisiana, Tennessee and New York. An example of direct cruise industry spending in ten selected states follows:

Alaska	\$363.3M
Arizona	\$47.4M
Louisiana	\$107.2M
Massachusetts	\$120.6M
Michigan	\$99.7M
Mississippi	\$10.8M
Oregon	\$99.7M
South Carolina	\$21.8M
Texas	\$123.1M
Washington	\$162.9M

Of course, the most important component of this industry is our passengers. Today, the typical cruise passenger is from middle America and comes from every state and age bracket. The continued success of the cruise industry is in large part attributable to the fact that a cruise vacation is affordable for the average American. The following provides a selected state listing of passengers who cruised in 1998:

Alaska	969
Arizona	78,161
Louisiana	73,894
Massachusetts	172,542
Michigan	137,546
Mississippi	15,708
Oregon	40,818
South Carolina	55,622
Texas	199,068
Washington	83,682

In conclusion, Mr. Chairman, as the industry continues to expand, it will be able to provide more opportunities for businesses located throughout the United States. In addition, as the industry brings new vessels into the North American market, it will be able to provide expanded service to additional U.S. ports and offer new itineraries for cruise passengers.

ICCL appreciates the opportunity to express its views to the Committee on this important issue.

INTERNATIONAL COUNCIL OF CRUISE LINES

MEMBER LINES

Carnival Cruise Lines	Orient Lines
Celebrity Cruises	Premier Cruise Lines
Commodore Cruise Line	Princess Cruises
Costa Cruise Lines, N.V.	Regal Cruises
Crystal Cruises	Royal Caribbean International
Cunard Line Limited	Royal Olympic Cruises
Disney Cruise Line	Seabourn Cruise Line
Holland America Line	Windstar Cruises
Norwegian Cruise Line	

ICCL ASSOCIATE MEMBERS (62)

AS OF SEPTEMBER 29, 1999

U.S. Members

Atlantic Marine, Inc. Mobile, AL	Maritime Telecommunications Network, Inc. Miami, FL
SHR Perceptual Management Scottsdale, AZ	Onboard Media Miami Beach, FL
FreshPoint, Inc. Los Angeles, CA	Port of Miami Miami, FL
Kaye, Rose & Partners, LLP San Diego, CA	Steiner Transocean, Ltd. Miami, FL
Marine Hotel Association Sausalito, CA	Teakdecking Systems Sarasota, FL
Port of San Diego San Diego, CA	Tropical Shipping & Const., Co., Inc. Riviera Beach, FL
Strategic Cruise Line Services Inglewood, CA	Mail-Well Print Group Atlanta, GA
Unitor Ships Service Inc. Long Beach, CA	Oneida Foodservice Atlanta, GA
Air Transport Association Washington, DC	The Coca-Cola Company Atlanta, GA
Amadeus Miami, FL	J.R. Simplot Company Boise, ID
Callenberg Engineering, Inc. Miami, FL	3M St. Paul, MN
Canaveral Port Authority Cape Canaveral, FL	Hann & DePalmer Robbinsville, NJ
Ecolab Inc. Tampa, FL	International Terminal Operating Co. Inc. Jersey City, NJ
Flagship Games International, Inc. Hollywood, FL	Konica USA Englewood Cliffs, NJ
Florida Restaurant Association Tallahassee, FL	Miller Freeman Princeton, NJ
Fuji Photo Film U.S.A., Inc. Miami, FL	American Insurance Group New York, NY
Harbour Marine Systems, Inc. Miami, FL	Berkely Group, The Garden City, NY
Howard Snoweiss Design Group Coral Gables, FL	Paul, Weiss, Rifkind, Wharton & Garrison New York, NY
Image Photo Services, Inc. Miami, FL	Cascade General, Inc. Portland, OR
International Paint Hollywood, FL	
Keller & Houck, P.A. Miami, FL	

G.E.T. Enterprises, Inc. Houston, TX	Steamship Mutual Underwriting Association London, England
Hospitality Financial and Technology Professionals Austin, TX	Sterling Publications Limited London, England
Port of Galveston Galveston, TX	Thomas Miller P&I Ltd. London EC3A 5BA, England
American Association of Port Authorities Alexandria, VA	Willis London, England
M. Rosenblatt & Son, Inc. Arlington, VA	Kvaerner Masa-Yards Inc. Helsinki, Finland
Mobil Aviation and Marine Sales Inc. Fairfax, VA	Chantiers De L'Atlantique Paris, France
Elgin DDB Seattle, WA	Blohm+Voss GmbH Hamburg, Germany
Port of Seattle Seattle, WA	Jos. L. Meyer GmbH & Co. Papenburg, Germany
Todd Pacific Shipyards Corporation Seattle, WA	Fincantieri-Cantieri Navali Italiani S.p.A. Trieste, Italy
<i>Overseas Members</i>	Assuranceforeningen GARD Arendal, Norway
Multiport Ship Agencies Network	SKULD OSLO, Norway

**DIRECT SPENDING (IN MILLIONS OF DOLLARS)
BY THE NORTH AMERICAN CRUISE INDUSTRY
IN 25 SELECT STATES**

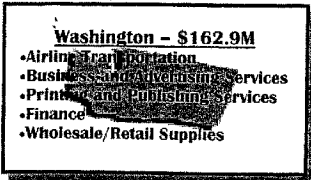
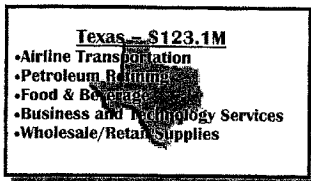
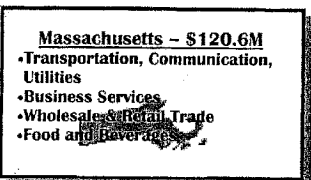
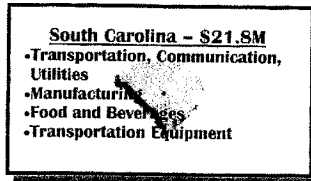
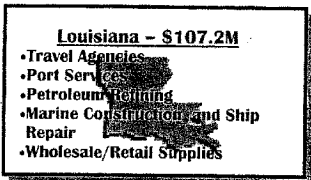
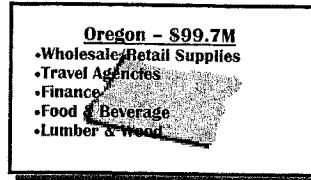
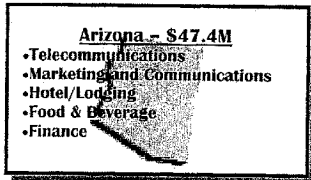
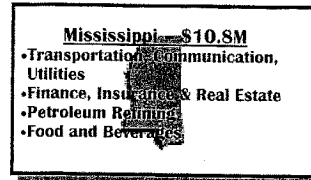
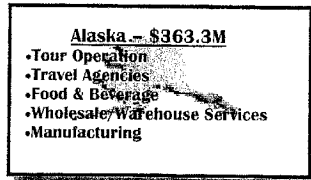
Florida	\$2,081.4
California	\$ 738.9
New York	\$ 723.8
Alaska	\$ 363.3
Washington	\$ 162.9
New Jersey	\$ 153.9
North Carolina	\$ 134.4
Texas	\$ 123.1
Pennsylvania	\$ 121.6
Massachusetts	\$ 120.6
Illinois	\$ 112.1
Georgia	\$ 110.1
Louisiana	\$ 107.2
Oregon	\$ 99.7
Michigan	\$ 99.7
Ohio	\$ 83.2
Virginia	\$ 68.3
Maryland	\$ 66.9
Arizona	\$ 47.4
Tennessee	\$ 46.5
Minnesota	\$ 43.6
South Carolina	\$ 21.8
Iowa	\$ 18.6
Nevada	\$ 16.7
Mississippi	\$ 10.8

United States.....Total \$6.15 Billion

**Total U.S. Expenditures for Top 50 Industries
Resulting from the Passenger Cruise Industry**

	Millions
Air Travel	\$1,764
Other Transportation Services, including Travel Agents and Other U.S.-based shore Tour Activity	\$1,214
Water Transportation	\$936
Business Services, Including Advertising	\$626
Food & Beverage	\$607
Petroleum Refining and Related Industries	\$470
Financial Services (excl. Insurance and Real Estate)	\$442
Oil and Gas Extraction	\$324
Real Estate	\$317
Wholesale Trade	\$299
Insurance	\$256
Ship Maintenance and Repair	\$249
Agriculture, Forestry and Fishing	\$238
Engineering and Management Services	\$191
Nonresidential construction	\$174
Other Publishing and Printing	\$164
Other Communications	\$163
Retail Trade	\$161
Entertainment	\$149
Hotels and Lodging	\$148
Motor Freight and Warehousing	\$146
Electric Utilities	\$146
Miscellaneous Services	\$144
Chemical Products	\$139
Other Durable Goods	\$100
Motor Vehicles and Parts	\$92
Aircraft Parts	\$84
Personal and Repair Services	\$76
Auto Repair and Rental	\$75
Other Rubber and Plastic Products	\$74
Pulp, Paper and Paperboard Mill Products	\$72
Newspapers, Periodicals and Books	\$67
Public Administration	\$67
Radio and Television Broadcasting	\$63
Legal	\$58
General Industrial Machinery	\$53
Drugs, Soaps, Toiletries	\$50
Gas	\$48
Lumber and Wood Products	\$47
Apparel and Other Finished Textile Products	\$40
Other Textiles	\$38
Electrical Equipment and Supplies	\$33
Postal Service	\$33
Refrigeration, Heating and Service Industry Machinery	\$30
Electrical Industrial Apparatus	\$30
Electronic Components and Accessories	\$30
Public Construction	\$29
Paperboard Containers and Boxes	\$28
Industrial Machinery	\$23
Miscellaneous Converted Paper Products	\$22

Overview of Total Cruise Industry Expenditures for Select States



Senator HUTCHISON. Thank you. Mr. Al Wallack, the President of Voyager Holdings.

**STATEMENT OF AL WALLACK, PRESIDENT,
VOYAGER HOLDINGS, INC.**

Mr. WALLACK. Thank you, Madam Chairman, for giving us the opportunity to come here and speak in support of S. 1510 today. If someone said 25 years ago that the cruise industry would carry 6.5 million people in the beginning of the new millennium, I would think that it would be judged difficult, if not impossible, and highly unlikely.

If anyone had said that the cruise industry 25 years ago would have grown 900 percent in the ensuing 25 years, I think people would have perhaps said that is a difficult or an impossible task, and maybe some of the tasks have a certain Don Quixote-like aura about them, but we have some very underdeveloped assets in the United States that we believe can be developed.

The cruise industry is a very large and dynamic, well-run and growing industry, yet there are some parts of it that are growing at a much slower rate, and I refer to, obviously, the U.S.-flagged portion of the business. The underdeveloped assets on this side of the world are the tremendous tourism potential that the port cities of the East Coast, West Coast, Gulf, and Great Lakes have and the great potential to bring not only Americans cruising to new destinations, but Europeans seeing America in a way that they have not yet been able to do.

Under S. 1510, Voyager Cruises has a very pragmatic and straightforward business plan. Our plan is to build modern cruise vessels in the United States and to finance those vessels with conventional financing and with conventional Title XI application, that any ship being built in the United States would be afforded. There is nothing unusual about that, but we understand that building new ships in yards that have not built them takes time.

In yards that are significantly experienced in building cruise ships, the general building cycle for a ship that has been a repeat copy of a previously built ship is approximately 2 years. When one starts a new venture, that is, a ship to be built for the first time, with a new design, the building program can take 3 years. In a new yard that has never built cruise ships before, this program could take at least 4 years from the time the button was pushed until the time the inaugural festivities begin pier-side in some U.S. port.

In order to get from here to there, our strategy is to apply a tried and true method, one that has been used by cruise lines for the past 25 years. That is, to acquire existing vessels, and to put them into a trade so that we can build the brand and train our staff and do all the things necessary to have a viable business while the new ships are under construction. These are the steps we have proposed to take under S. 1510.

We have a willing seller prepared to sell us three modern cruise ships, 1990 vintage cruise ships. We have conventional financing, nothing tricky, regular bankers to purchase those vessels and put them into service. We have a manning agreement with Patriot

Holdings on the West Coast to provide us with American crews to staff these ships.

As we take these vessels into service, modifications, if necessary, will be done in U.S. yards, and we will put them into service in the kinds of itineraries I alluded to before, along the coasts of America, and the Great Lakes of America. This is perhaps an impossible dream, but one, if one applies normal business acumen and experience, can be actually done. We can actually bring an American flag business into reality.

Will it be a dominant megabusiness and take over the cruise industry? Only a fool would say that, but we can make significant growth, and nothing in my experience draws attention to a new business like a successful business operating in it. I feel confident that if our plan is allowed to go forward under S. 1510, if we are able to convert these vessels and build new vessels, then we are going to attract attention from a lot of other competitors.

Imitation is the sincerest form of flattery, and I believe that we will be imitated, and additional vessels will be plying the trade that we will initiate. Thank you very much for giving us the opportunity to tell you our story this morning, and I will be happy to answer any questions you might have.

[The prepared statement of Mr. Wallack follows:]

PREPARED STATEMENT OF AL WALLACK, PRESIDENT, VOYAGER HOLDINGS, INC.

Mr. Chairman and Members of the Committee:

My name is Al Wallack. I am the President of Voyager Holdings, Inc., a wholly-owned subsidiary of the D'Arcinoff Group. The D'Arcinoff Group is a United States corporation whose present ownership and management consists of cruise, leisure, and shipyard industry professionals. Voyager Holdings was formed to acquire, operate, and construct large, modern cruise vessels for the United States domestic market.

As for myself, I have spent my entire adult working life in the tourism industry, first in the airline industry and, since 1981, in the cruise industry. I was a founder and Senior Vice President of Celebrity Cruises; the Chairman of the Cruise Line International Association (CLIA) and twice chairman of this cruise industry association's marketing committee; and, most recently, President of Royal Olympic Cruises, USA.

Mr. Chairman, the D'Arcinoff Group and Voyager Holdings support your legislation, S. 1510. We support this legislation because the status quo as defined by the existing statutory and regulatory framework governing the operation of cruise vessels in the domestic trades simply has not and will not work to achieve the goal of a fleet of large, modern U.S.-built, U.S.-flag cruise vessels. Unless the existing law is adapted to meet the realities of the cruise industry—as it has been done in the past to assist companies that want to develop and expand domestic cruise vessel operations—our country will continue to lose a tremendous opportunity to participate in the economic benefits that are derived from expanded cruise vessel operations.

We support the enactment of S. 1510 because it will allow Voyager Holdings and any other American company to acquire existing foreign cruise vessels for reflagging and immediate operation in the United States domestic market under the United States flag. Based on my personal experience and observations, and the history of the cruise industry itself, it is clear that virtually every major cruise line has either started operations or expanded and modernized its operations by acquiring existing ships and establishing a market presence and identity before and during the time it expended the capital to build new ships. This pattern, followed by the large cruise lines at their beginning, serves as a blueprint which can and should “and must” be followed by companies seeking to enter this highly competitive business today.

The development and growth of a cruise line is market driven, and the decision to obtain and build cruise ships, and where to operate, is an economic determination. It is, as the lack of an oceangoing United States-flag cruise vessel fleet demonstrates, a decision that is greatly influenced by the relevance of the legal frame-

work governing cruise vessel operations to the nature of the industry itself. Otherwise, the existing law would be working.

As I stated, history repeatedly shows that to be successful, the cruise venture begins with a realistic bridge strategy, a strategy that allows a company to operate in its chosen markets while it has more attractive and more modern vessels under construction. This bridge strategy allows the company to offer consumers a new cruising option, laying the groundwork for the introduction of its new ships.

For Voyager Holdings, therefore, the most significant aspect of S. 1510 is that its enactment will allow us to implement our bridge strategy and to proceed with our plans to acquire existing cruise vessels for operation in the United States domestic market. Given the opportunity authorized in this legislation, Voyager Holdings will implement our plans to acquire vessels, to place them as quickly as possible under the United States flag, to provide significant new employment and economic opportunities to American shipboard and shore side labor, and be in a position to offer Americans new business and pleasure cruise options aboard American ships.

In short, the enactment of S. 1510 will give Voyager Holdings the final ingredient to start a new American flag cruise line. It will allow us to implement a bridge strategy, a strategy that will allow us to bridge the gap that would otherwise exist by operating existing cruise vessels as new vessels are being built in an American shipyard. The amount of capital required to build cruise vessels, and the amount of time it takes, added to the fact that many United States domestic markets and itineraries are untested, make it essential that Voyager Holdings and other companies interested in entering the domestic cruise trades be given the opportunity to follow the same path to success that other cruise lines have followed. It is, in my opinion and based on my experience in the cruise industry, unrealistic to expect American cruise vessel ventures to succeed in any other fashion.

We are also extremely pleased that S. 1510 contains a preference for United States-built and United States-flag cruise vessels over foreign cruise vessels when the Secretary of Transportation approves itineraries. This provision of the bill is necessary to encourage vessel owners to expand United States cruise vessel operations and to eliminate a disincentive to American cruise vessel operations.

Equally important, we support the provision in S. 1510 that is intended to apply United States laws equally to United States-flag and foreign-flag vessels operating in the domestic cruise trades. Again, we feel very strongly that cruise vessel development legislation should encourage, not discourage, the operation of large United States-flag cruise vessels. We are confident that the Secretary of Transportation will ensure that American law does not work to the disadvantage of the American cruise industry.

Voyager Holdings is not afraid to compete—provided that our competition plays by the same set of rules we are obligated by law to uphold. If implemented the way we believe it is intended, S. 1510 can and should help guarantee that ultimately, large cruise vessels operating between United States ports will be built in the United States and operated under the United States flag by American workers.

In conclusion, I would like to thank you, Mr. Chairman, and the cosponsors of S. 1510 for introducing this important and long-overdue legislation that provides the incentives to develop a United States flag cruise vessel fleet. Given the authority contained in this legislation, we are ready and eager to begin operating United States flag cruise vessels in the United States domestic cruise trades.

Senator HUTCHISON. Thank you, Mr. Wallack.

Mr. Edmund Welch, Legislative Director for Passenger Vessel Association.

STATEMENT OF EDMUND B. WELCH, LEGISLATIVE DIRECTOR, PASSENGER VESSEL ASSOCIATION

Mr. WELCH. Thank you, Madam Chairman and Senators. I am Ed Welch. I am legislative director for the Passenger Vessel Association. I would like to report that our president of our association, Mr. Chris Hendricks from Norfolk, Virginia, president of Spirit Marina, has come to the hearing and is in the audience.

The Passenger Vessel Association is the national voice of U.S. flagged passenger vessels of all types, including overnight cruise ships, and obviously from the earlier statements there are folks that are under the misimpression that there are no U.S.-flag over-

night cruise ships, other than the S.S. INDEPENDENCE in Hawaii, but it is just simply not so! There is a vibrant and exciting market segment in the U.S. trades that consist of a number of small-ship overnight cruise ships, and these ships will have anywhere from 75 to 250 passengers, and the Passenger Vessel Association represents these U.S.-flag operators.

These passenger vessels, these U.S.-flag passenger vessels are everything that you in Congress want to have in a maritime policy. The ships are built by American workers in American shipyards. They employ American seafarers, and their shoreside staffs, and their vessels operate on popular American routes throughout the U.S. Their companies and their employees all pay U.S. and State income taxes.

In my statement, I describe seven member companies in our association that operate 22 existing overnight cruise vessels, and there are seven more that are imminent in the next year or two, some of them being constructed in the yards right now.

In addition to our vessel members, PVA represents a number of associate members that are smaller shipyards that build these types of ships, including Nichols Brothers in Washington State, Senator Gorton, and our message to you is, we are here. We are here right now. We are U.S.-flagged, we are U.S.-built, U.S.-owned, and U.S.-crewed passenger vessels, and we have relied on the Passenger Vessels Services Act in establishing and operating our businesses.

Make no mistake, if Congress were to change the law so that foreign-flag vessels entered our markets, we would suffer enormously. How could we stay in business, paying good wages at American rates to American citizens, while competing against foreign vessels paying far lower rates to noncitizens?

How could we continue to pay income taxes on all of our operations, even when we take our vessels to the Caribbean or to Mexico, while our foreign competitors would pay hardly any, or even no U.S. income taxes? Why would Congress want to favor foreign businesses at the expense of our existing American ones?

Turning to the specifics of the bill before you, we must report that we have serious concerns about the legislation, although we recognize that the intent of the bill, and the intent of the sponsors, is to jump-start the domestic industry for large cruise ships.

We believe that any bill to amend the passenger act should embrace the principle of first do no harm, and we fear that S. 1510 would harm our existing thriving small passenger vessel fleet. In some cases, it will permit foreign flag vessels of no more than 9,000 gross tons, and carrying no more than 200 passengers, to come into our domestic service and compete directly against us. That threshold is entirely too low.

Second, the bill attempts to give a preference to coast-wise qualified U.S. vessel operators over other vessels, but because of the way the bill defines cruise vessel, and because of its comparability standard, it really provides no protection at all for most of our vessels. A foreign-flag vessel could enter our markets, and under our bill our vessels would have absolutely no recourse, and it is simply not right to assume that a larger vessel, foreign vessel entering our market has no competitive impact on a smaller vessel.

Our operators in Southeast Alaska already struggle against foreign flag competition up there, and they can tell you how tough it is, and an analogy would be, consider a foreign Wal-Mart—not just a regular Wal-Mart, a foreign Wal-Mart, paying foreign workers non-American type wages, coming in, competing against American Main Street businesses. That is what you would have.

A serious shortcoming of the bill is that it fails to make clear whether or not all the vessels that would be allowed into the coast-wise trade have to abide by the same laws. For instance, would the National Transportation Safety Board have jurisdiction to investigate accidents on their vessels? Under current law, it would not, because their jurisdiction is restricted to 3 miles, and even under the bill that is being presented to Congress right now, the NTSB jurisdiction goes out only to 12 miles on foreign-flag vessels, but the NTSB has jurisdiction over our vessels wherever they operate. That is not fair.

Similarly, would the Americans With Disabilities Act apply to every vessel operating in the U.S. coast-wise service? It applies to us now, but the foreign-flag industry says that it does not apply to them, and the bill should clarify this.

Would the Federal minimum wage law apply to all vessels entered into the domestic service under this? It certainly applies to our vessels. How equitable would it be to exempt one category of vessels, the foreign vessels, and not provide the same treatment to us, their competitors.

Madam Chairman, we believe that operators in the U.S. coast-wise trade should fly the American flag on their vessels. They should abide fully with all the laws and rules that affect American companies. Our vessels fly the U.S. flag. We hire American citizens. We pay them American-level wages. We are fully subject to all U.S. Federal and State laws. If we can do it, why can't they?

Why should they receive the favored treatment for at least 7 years without extracting any commitment from these foreign companies that they would have to build vessels in the United States, or operate passenger vessels under the U.S. flag, but under the terms of the bill, that is exactly what would happen.

Our members do not fear competition. They compete among themselves. They compete against shoreside attractions. But they would hope that Congress would ask them to compete in a fair environment, where all the applicable rules and laws apply to everyone equally.

Thank you, Madam Chairman.

[The prepared statement of Mr. Welch follows:]

PREPARED STATEMENT OF EDMUND B. WELCH, LEGISLATIVE DIRECTOR,
PASSENGER VESSEL ASSOCIATION

Mr. Chairman, and members of the Subcommittee, I am Edmund B. Welch, Legislative Director of the Passenger Vessel Association.

The Passenger Vessel Association is the national voice of U.S.-flag passenger vessels of all types. We represent the interests of owners and operators of overnight cruise ships, dinner cruise vessels, sightseeing and excursion vessels, gaming boats, car and passenger ferries, and private charter vessels. The passenger vessel industry carries nearly 200 million passengers each year.

With nearly 500 vessel-operating and associate members, PVA is the industry's voice and advocate in the halls of Congress and with the U.S. Coast Guard and other federal agencies.

Our associate members are key suppliers to the passenger vessel industry, including shipyards, marine architects, vessel builders and decorators, insurance companies, publishers, food supply companies, computer software vendors, marine equipment suppliers, engine manufacturers, and others.

You may be under the misimpression that there are no U.S.-flag overnight passenger vessels, other than the *S.S. Independence* in Hawaii. You may hear such a statement during the testimony today. But it's simply not so! There is a vibrant and exciting market segment in the U.S. trades consisting of small-ship overnight cruise vessels. The Passenger Vessel Association counts most of these companies as members. You may not be aware of these small passenger vessel companies, but they embody everything Congress wants in a maritime policy. Their vessels are built by American workers in U.S. shipyards in places such as Rhode Island, Indiana, Florida, Louisiana, Alabama, and Washington. They employ American workers as crew and on their shoreside staffs. Their vessels operate on popular itineraries throughout the United States. The companies and their employees all pay U.S. income and other taxes. Let me describe our overnight cruise members.

We are pleased to have Delta Queen Steamboat Company of New Orleans as a PVA member. The company operates the *Delta Queen*, *Mississippi Queen*, and *American Queen* riverboats. It will soon operate an additional vessel, the 161-passenger *Columbia Queen* in the Pacific Northwest. Nichols Brothers Shipyard in Freeland, Washington, will complete that vessel later this year. And Delta Queen has embarked on a building program of up to five new coastwise passenger vessels to be known as the Coastal Queens. Each will carry 226 passengers. These vessels will operate on itineraries on the Atlantic, Gulf, and Pacific Coasts, and may possibly serve the Great Lakes. Delta Queen has signed a \$60 million contract for the first two Coastal Queens with Atlantic Marine in Jacksonville, Florida, and work is already underway.

American Hawaii Cruises currently operates the *S.S. Independence* among the Hawaiian Islands. As a result of enabling legislation enacted by Congress, the company has signed a contract with Ingalls Shipbuilding in Mississippi to construct two cruise ships of 72,000 gross tons carrying 1900 passengers each. They will operate in Hawaii. In the interim, American Hawaii Cruises intends to purchase the *Nieuw Amsterdam* and place it under the U.S. flag for Hawaiian operations. The vessel will carry 1214 passengers.

Cruise West is headquartered in Seattle, Washington. The company operates seven vessels along the West Coast of North and Central America. The vessels accommodate from 52 to 102 passengers. Six of these vessels are overnight cruise ships. The company fears that if a larger foreign cruise vessel were to enter its domestic markets, its revenues could be impacted, in part because of the dominating marketing and advertising messages of the foreign-flagged cruise lines.

Special Expeditions Marine is another Seattle-based Company. It operates two 70-passenger passenger vessels on the West Coast from Alaska to Baja California.

Yet another Seattle company is American West Steamboat Company. They operate the 163-passenger overnight sternwheeler *Queen of the West*. Their expansion plans include the 244-passenger *Empress of the North*, a vessel that has already been designed with a projected launch in 2002.

American Canadian Caribbean Cruise Line of Warren, Rhode Island currently operates three overnight cruise vessels with passenger capacities of between 84 and 100 along the Atlantic and Gulf coasts. The vessels were built in 1998, 1997, and 1994 in the company's sister shipyard, Blount Industries of Warren, Rhode Island.

Clipper Cruise Line of St. Louis, Missouri, operates a 138-passenger vessel on routes in the Great Lakes, Atlantic Canada, and U.S. East Coast. A second 102-passenger vessel sails in Alaska and the West Coast. The company estimates its capital investment in the two vessels at nearly \$28 million.

Glacier Bay Tours and Cruises of Seattle operates four overnight cruise passenger vessels on the West Coast from Alaska to Baja California; their passenger capacities range from 48 to 88. The company, owned by an Alaskan native corporation, has an annual payroll of \$4.1 million for 150-200 employees.

Other PVA members, such as The Boat Company and American Safari Cruises, sail very small overnight cruise vessels (20 passengers or fewer) in Alaska waters.

In addition to vessel-operating members, PVA has associate members that build and supply small passenger ships. Examples are: Nichols Brothers Boat Builders of Freeland, Washington; Blount Industries of Warren, Rhode Island; and Atlantic Marine of Jacksonville, Florida.

Our message to you today is "We are here! We are U.S.-flagged, U.S.-built, U.S.-owned, and U.S.-crewed passenger vessels. We depend upon the Passenger Vessel Services Act and we fully support all the principles underlying it."

Make no mistake: if Congress were to change the law so that foreign-flagged vessels entered our markets, we would suffer enormously. How could we stay in business paying good wages to American citizens while competing against foreign vessels paying far lower wages to noncitizens? How could we continue to pay income taxes on all of our operations, no matter where the vessels sail, while our foreign competitors pay fewer or even no income taxes to the United States? Why would Congress want to favor foreign businesses at the expense of existing American ones?

Let's make one thing clear: the Passenger Vessel Services Act is *not* the absolute bar against foreign-flag vessels serving U.S. ports that some erroneously claim. Under existing law, a foreign-flag passenger vessel can sail on a cruise-to-nowhere into international waters from a U.S. port anytime it wishes. It can have passengers embark at a U.S. port, subsequently call upon other U.S. ports (where the passengers can go ashore, but not disembark from the vessel permanently), and then sail to a foreign destination. In the Great Lakes, it is a simple matter for a foreign vessel to embark passengers at a U.S. port, call upon subsequent U.S. ports, and then disembark the passengers at a Canadian port (or vice versa); two foreign passenger vessels will do so next year. In recent years, a foreign passenger vessel has offered extensive service from Alexandria, Virginia, and advertised these cruises heavily in the *Washington Post*.

Does the Passenger Vessel Services Act serve a purpose today? Does it accomplish that purpose? You bet it does. Under its auspices, there has developed a strong industry of small passenger vessels flying the U.S. flag and serving U.S. coastwise routes. New U.S.-built vessels continue to enter this market. We have a positive story to tell about the Passenger Vessel Services Act. Turning to the specifics of S. 1510, Mr. Chairman, we must report that we have serious concerns about the legislation, although we recognize that your intent is to "jump-start" the domestic industry for large cruise ships. Mr. Chairman, we believe that any bill on the Passenger Vessel Services Act should embrace the principle of "First, do no harm." We fear that S. 1510 could harm the existing, thriving small vessel U.S.-flag fleet. In some cases, it will permit foreign-flag vessels of no more than 9,000 gross tons to come into domestic service. This threshold is too low. It will bring in vessels that will compete directly with the 226-passenger Coastal Queens. We recommend that you scrap the bill's reliance on tonnage and simply have it apply to passenger ships that have overnight accommodations for 750 passengers or more. Secondly, the bill attempts to give a preference to a coastwise-qualified U.S.-flag vessel over all other vessels. However, because of the way the bill defines "cruise vessel," and because of its "comparability" standard, it provides no protection at all for most of our vessels. A foreign-flag vessel could enter our markets, and under the bill, our vessels would have absolutely no recourse. It's simply not accurate to assume that a larger vessel entering a market has no competitive impact on a smaller vessel. Our operators in southeast Alaska already struggle against foreign-flagged competition in the same region. They can tell you how tough that is.

A serious shortcoming of S. 1510 is that it fails to make clear whether or not all vessels in the coastwise trade will have to abide by the same laws. For instance, will the National Transportation Safety Board have jurisdiction to investigate accidents on foreign-vessels operating in domestic commerce more than three miles from our shore? Right now, the answer would be no, although NTSB has jurisdiction over U.S.-flagged vessels no matter where they operate. That's not fair. The bill should specifically provide that NTSB has jurisdiction over any passenger vessel operating in coastwise service.

Similarly, will the Americans with Disabilities Act apply to every vessel operating in coastwise service? It applies to us right now, and it would be unfair and contrary to U.S. policy towards persons with disabilities to allow a vessel to provide domestic service without being subject to the ADA. However, as of now, the foreign-flag passenger industry strongly maintains that the Americans with Disabilities Act does not apply to their vessels, even those embarking and disembarking passengers at U.S. ports. The bill should provide specifically that the ADA applies to every vessel operating in U.S. domestic service.

Would the Federal minimum wage law apply to the vessels allowed into domestic service by S. 1510? It certainly applies to our vessels. How equitable would it be to exempt one category of vessels and not provide the same treatment to their competitors. But, right now, the Fair Labor Standards Act has a statutory exemption for a "seaman" on a foreign vessel. S. 1510 ought to ensure equal treatment.

Finally, Mr. Chairman, we believe that operators in the U.S. coastwise trades should fly the U.S. flag on their vessels. They should abide fully with the laws and rules that affect American companies. Our vessels fly the U.S. flag, we hire American citizens and pay them American-level wages, and we are fully subject to all Federal and state laws. If we can do it, why can't they? Why should they receive

avored treatment? Unfortunately, we believe that S. 1510 will provide that favored treatment to foreign companies for at least seven years without extracting from them any binding commitment to build vessels in the U.S. or operate passenger vessels under the U.S. flag.

Mr. Chairman, our members are providing the type of domestic cruising experiences sought by the Cruising America Coalition, and we are doing it on U.S.-flag vessels. Our operators are expanding their fleets. If this committee is to act on S. 1510, we ask that it be amended so that it will not have a detrimental or unfair impact on us.

Senator HUTCHISON. Thank you, Mr. Welch. I certainly do want to address some of your issues in the question and answer part of our hearing, because I think you have raised concerns and I think we need to address them, so let us talk about how we can.

Ms. Veronica Sanchez, Executive Director of Cruising America Coalition.

**STATEMENT OF VERONICA SANCHEZ, EXECUTIVE DIRECTOR,
CRUISING AMERICA COALITION**

Ms. SANCHEZ. Good morning, Madam Chair, members of the Committee. My name is Veronica Sanchez. I am the manager of governmental affairs for the Port of San Francisco and also the executive director of the Cruising America Coalition.

Our coalition is a grassroots coalition of U.S. ports, cities, convention bureaus, tourism, and maritime businesses, including ship repair yards, stevedores, tug operators, and vendors to the cruise industry.

We started this coalition 4 years ago in California out of pure frustration that we had one of the most scenic coastlines in the country, and yet we could not market coastal cruises on that coastline unless the cruise included a foreign port. That is a little bit difficult for most ports in California, because we do not have islands off of our coast, as the East Coast does, and even our port in San Diego has difficulty with this law, because it loses Hawaii cruises to Ensenada.

Given California's leadership on this issue, which started with the 1995 White House Conference on Travel and Tourism, we are pleased to have Senator Feinstein's cosponsorship of S. 1510. I understand that the Senator cannot be here for this hearing, but that she will submit her testimony for the record. [Refer to Appendix.]

Our coalition group, to include national associations, including the American Association of Port Authorities, and the three major travel professional associations, ASTA, ARTA, NACOA. It also includes the American Hotel and Motel Association, and the American Buses Association [latter statement is not available], and for the record, Mr. Chairman, I would like to submit the statements of these associations into the record of this hearing. [Refer to Appendix.]

Our coalition also includes consumers who have cruised and wanted to cruise to other places in the United States and are frustrated by this law.

Our goals are very simple. It is to develop a new U.S. tourism product by reviving coastal cruising between U.S. cities aboard large ocean liners. This new product will create new business opportunities for U.S. cities and U.S. businesses. Most importantly, our goal is to correct the inequity that is created by the Passenger

Services Act, where the ports that are closest to foreign destinations have a competitive advantage over others.

International cruise lines are sailing in and out of U.S. ports today en route to other U.S. ports. This is perfectly legal under the Passenger Services Act, as long as they stop at a foreign port.

We are pleased that today we are joined by three seafaring maritime unions in support for S. 1510. We have come a long way from the hearing 2 years ago that Senator Hutchison presided over in your committee, where you asked us to work toward a compromise and resolve agreements, and we never thought we would come to this point, so we have made dramatic progress. We also are thankful for the chairman's leadership and interest in this legislation, which has motivated us to work very hard.

S. 1510 benefits U.S. ports and tourism groups because it contains incentives. It is realistic from a business point of view, because we would not have signed on to legislation that would be full of obstacles, that would not bring the ships in.

As Mr. Wallack noted, it will jump-start the entry of U.S.-flag ocean liners into this trade. We believe that this legislation has the best chance for bringing in the ships into the coastal trade. We want to take advantage of the popularity of cruise vacations and the market now. We do not want to wait for too much time to go by for the financing and construction of U.S. flag ships. We need an interim approach, and S. 1510 provides it by allowing the re-flagging of foreign-built ships.

The legislation responds to the consumer's interest for more cruise vacations, and it is this interest that is driving the booming cruise market, which is booming at an annual growth of 8 percent per year, and 95 percent of those cruises are sold by travel professionals who depend on cruise vacations to offset the losses from the airlines' cuts.

But interestingly enough, only 11 percent of the U.S. population has ever cruised, so that means there is a huge market of people out there that still need to find reasons to get on a ship, and that is the biggest challenge for the industry. As stated in the industry's own marketing report by CLIA, the 2 to 5-day cruise category, the short cruises, is one of the hottest-growing markets, and it is here where this old statute has the greatest impact on U.S. ports, because the ports that are farthest away from foreign ports have the hardest time being able to offer the 2 to 5-day cruises.

The cruise industry's theme right now is more choices, more ships, more attractions, more cities and, indeed, the industry has added new cities to its itineraries. The best example of this is with the Texan ports, where 5 years ago there was a lot of doubt that Houston would become a major cruise port as it is today. In fact, one cruise official said cruising out of Houston is like cruising out of Omaha. Well, that same company has now broken into the cruise business in Galveston and will start cruising there next year.

In Seattle, we are seeing Seattle come back, the entry of a Norwegian cruise line vessel in that port for next year, serving the Alaska itinerary, made possible because the ship is very fast and it calls in Vancouver the night before it comes into Seattle.

Savannah will be getting an 1,100 passenger ship, and as Senator Cleland stated, it is building a new cruise terminal but as you

see, the development of other cruise ports and increasing business, you note the fact that it is because they continue to depend on foreign ports, and yet our port officials do see a desire and ability to serve other U.S. ports so that they can diversify their cruise portfolio.

That is the important point here, is that we want to provide our U.S. ports with the ability to not just go south to Encinada, not just go East to the Caribbean. We want to be able to go to different locations to serve the consumer market.

Our bill is supported by convention bureaus and State tourism directors, because the statistics are clear that once cruise passengers sample a destination, they will come back. Over 50 percent of the passengers said they will return, and that is good for our communities.

The legislation does protect the small U.S. boat companies. It is interesting, we have had two hearings on this legislation with two different pieces of legislation, and we have heard the PVA's concerns and we have addressed those concerns in this legislation by actually tightening the cutoffs, so whereas the prior legislation, their concern was about 5,000-ton limits now, we said OK, let us not allow any foreign vessel into this trade that is under 9,000 gross registered tons, and for all practical purposes, any vessel that is not an all-suite configuration from 9,000 to 20,000 gross tons cannot enter this market.

We respectfully disagree with Mr. Welch that smaller vessels are competing with large ocean liners. Our travel agents are on the phone every day with consumers. They know the difference in the products between a small yacht adventure cruise, as those of Alaska sight-seeing, and the larger ocean liners that are sailing. There is no competition, and in fact the DELTA QUEEN, both vessels that are to be built, the tonnage on those is less than 2,000 gross registered tons. Our cutoff is 9,000 gross registered tons, and so again, the tonnage is different and the product is different.

In summary, Mr. Chairman and members of the Committee, S. 1510 is about new choices for vacationers, new chances for U.S. ports to compete for business, and new chances for U.S. seafarers to get jobs on U.S. flagships.

We thank you for this opportunity, and we are happy to answer your questions.

[The prepared statement of Ms. Sanchez follows:]

PREPARED STATEMENT OF VERONICA SANCHEZ, EXECUTIVE DIRECTOR,
CRUISING AMERICA COALITION

Mr. Chairman and Members of the Committee:

My name is Veronica Sanchez, Executive Director, Cruising America Coalition and a founding member. I am also the Manager of Governmental Affairs for the Port of San Francisco. I am honored to speak to you today in support of S. 1510, The United States Cruise Ship Tourism Development Act of 1999.

The Cruising America Coalition is a grass roots coalition of U.S. ports, cities, consumers, convention bureaus, tourism and maritime businesses, including ship repair yards, stevedores, tug operators and vendors to the cruise industry. It also includes consumers and elected and appointed officials.

Four years ago, California's Ports started this Coalition out of frustration over the fact that we have one of the most scenic coastlines in the world, but we can't market California coastal cruises without including a foreign port. The 113-year-old Passenger Services Act impacts our states' ports very seriously because we don't have foreign islands off our Coast like the Eastern Coast. Even San Diego, the California

Port closest to Mexico is disproportionately affected by the PSA, as evidenced by the fact that cruises to Hawaii are sailing out of Ensenada.

Our Coalition grew nationally to include the support of the American Association of Port Authorities (AAPA) and individual ports of all sizes throughout the country. Major tourism groups, like the three major associations (ASTA, ARTA, NACOA) representing travel professionals, joined our Coalition. Other cruise dependant businesses like the American Hotel & Motel Association and American Bus Association also joined us. Individual travelers and elected City officials have voiced their support for us. Countless times, travel agents and port officials must explain to bewildered vacationers why they must travel to a foreign port as a condition of cruising between their own countries ports.

Our goal is simple: to develop a new U.S. tourism product by reviving coastal cruising between U.S. cities aboard large ocean liners. By doing so, we can create new business opportunities for U.S. cities and U.S. businesses. The PSA creates an inequity among U.S. ports by enabling those that are closer to foreign destinations to have a competitive advantage. Even cities closest to foreign ports would benefit from S. 1510 because they could diversify their cruise business and not be exclusively reliant on cruises to foreign ports.

Today, we are pleased that three prominent maritime unions have joined us in supporting S. 1510: the Master Mates and Pilots, Marine Engineers and Beneficial Association and Sailor's Union of the Pacific. In the past, we have testified on opposite sides of this issue, but over the past few months we've reached agreement and produced a compromise framework that can draw bipartisan support. It contains real business incentives, not obstacles, for international and U.S. companies to enter the domestic cruise market. Our Coalition's members are excited about the prospect that S. 1510 provides the best chance for U.S. ocean liners to break into the coastal market. If U.S. ocean liners succeed, we succeed in increasing our cruise calls and revenues.

The basic principles that we agree on are:

(1) **The status quo is not working!** The PSA is not serving its original purpose of preserving jobs for U.S. seamen. The number of U.S. seamen working on the Independence and Delta Queen is small when considering the dramatic growth of this industry. The PSA combined with the decline of the U.S. cruise ship industry has limited job opportunities aboard U.S. ocean liners to one U.S. Flag ship in Hawaii. It took special legislation passed in the 1997 Defense Appropriations bill to stimulate the prospective entry of new U.S. Flag ships into the Hawaii trade after a forty-year hiatus.

(2) **Creative Incentives Needed!** To stimulate U.S. coastal cruising we must be creative and visionary about laying out a framework of incentives that will work for the 21st century. If we truly are committed to creating jobs from this new domestic trade, we can't be paralyzed with fear about the impact of this change on a separate maritime law relating to cargo, the Jones Act, which is strongly protected in our bill.

S. 1510 is Compromise Legislation to Jumpstart U.S. Coastal Cruising

The legislation before you today, S. 1510, is a creative framework and a reasonable compromise. This is a different approach for the Cruising America Coalition. In past years, we pursued legislation focused on the international cruise industry because of the availability and size of the international fleet. If we had fifteen U.S. Flag ocean liners serving all four coastlines, we would not have spent so much time, energy and resources asking Congress for help. But we don't want to miss out on jobs and business opportunities that could be available now with a limited waiver to the PSA.

S. 1510 works for us because we can sell our Port cities **by allowing international flag cruise lines to cruise between U.S. ports for a limited amount of time (200 days per ship until December 31, 2006)**. With a proven track record in these new cruise products, we believe the effect of S. 1510 will be to open up a host of new opportunities.

The impressive growth of cruise tourism has stimulated the interest of U.S. investors like Voyager Holdings to enter coastal cruises with ships manned by U. S. crews. S. 1510 provides a fast track for the entry of cruise ships by allowing foreign built ships to be reflagged U.S. and enter the U.S. domestic market. This means real dollars in one or two years for ports, travel agents and hotels. Meanwhile, U.S. investors would simultaneously contract to build a replacement ship. With S. 1510, we are creating a new market opportunity for the building of the next series of U.S. Flag ships in U.S. shipyards.

S. 1510 proposes to use foreign assets to build the market for domestic cruising for the benefit of all Americans, including potential U.S. Flag vessel owners. When the market for new types of domestic cruises is tested, investors will follow.

U.S. Coastal Cruising Will Meet Passenger's Interest in More Cruise Vacation Choices

The cruise industry is the most exciting growth category in the entire leisure market, according to the market survey recently completed by CLIA, the international cruise industries own marketing group.¹ Since 1980, the industry has had an average **annual growth of 8%**. By 2000, **6.5-7 million passengers** per year will cruise. These are very exciting numbers for ports trying to diversify their maritime portfolios and travel agents striving to offset losses from airline caps.

But most important to the development of U.S. coastal cruises for both international and U.S. Flag cruise lines are the following figures from CLIA's report:

- **Taking a cruise is the dream of 56% of all adults in the North American market.**²
- To date, **only 11% of the U.S. population have ever cruised.**
- **Market potential for the next five years: 75 million people.**
- ✓ **Of the number of people surveyed 56% expressed an interest in cruising over the next five years.** The cumulative economic impact over the next five years from these individuals cruising could be as high as **\$97 billion.**
- ✓ **31% of the people surveyed, said they will probably cruise in the next five years,** for a cumulative impact of \$54 billion.

The industry is responding to these projections with aggressive shipbuilding plans. Forty-seven *ocean liners are on order through the year 2004 for a total of \$14 billion dollars.* Two of these vessels include the first U.S. built, U.S. Flag ships to enter the U.S. domestic market: the American Classic Voyages ships for the Hawaii market, which have an estimated total cost of almost \$1 billion.³

As stated in the CLIA report, **"the on-going challenge for our cruise industry is to convert cruise prospects into new cruisers."** The international lines have responded to this challenge with new ship design (ships of all sizes), new on board/on-shore activities (including rock climbing walls, spas, shopping malls, ice rink, and alternative dining rooms) and new themes.

New Cruise Destinations Lure First Time Cruisers.

In the last four years since the Cruising America Coalition was started, we have seen new ports added as major cruise hubs that we never envisioned would be on the list of major cruise Ports. This proves the industries desire to open up new cruise destinations to keep the cruise vacation product fresh and exciting. It also reflects the need to make room for newer and bigger tonnage by testing new cruise products with older ships.

Here are some examples:

Texas — The entry of Norwegian Cruise Lines (NCL) into Houston for Texaribbean Cruises was a major turning point in the diversification of cruise ports. NCL line is capitalizing on the regional market in the Southwest and Midwest to attract customers. The itinerary includes small ports in Honduras where the infrastructure was not in place. Texaribbean Cruises have been so successful that this year, NCL positioned a larger vessel, the NCL Sea carrying 1600 passengers. Another cruise line will begin Yucatan itineraries in 2000.

This year Carnival Cruise Lines announced it will homeport the "Celebration" in Galveston for 70 cruises per year to Mexican Ports. A new \$4.8 million cruise terminal, financed with revenue bonds, will be built to accommodate the new business. This is an important change for Carnival whose President, Bob Dickinson, once remarked **"Cruising out of Houston was like cruising out of Omaha."**

Corpus Christi, gateway to San Antonio, will open its cruise terminal next month. The cruise terminal and waterfront commercial development is funded with a sizeable grant from the U.S. Department of Commerce (EDA).

If S. 1510 passes, Texas' Ports can offer new cruise itineraries to New Orleans, Tampa and Key West. With their proximity to the Gulf Coasts beautiful coastline, why should Texas' ports be limited to only Mexican cruises?

¹ Cruise Line Industry Association (CLIA), *The Cruise Industry-An Overview: Marketing Edition*, February 1999.

²North American market as defined in the CLIA report designates only U.S. and Canada. The highest rate being exhibited in the emerging baby boomer category.

³*Seatrade Cruise Review* September 1999.

Seattle — With its proximity to Vancouver, Seattle has been at a severe competitive disadvantage and has seen more cruise passengers move out of SEATAC Airport than its cruise terminal. In 2000, Seattle will generate 21 new cruise calls to Alaska from one of the fastest ocean liners to be built by NCL. The ship will stop in Vancouver as a port of call the night before it arrives back in Seattle to get around the PSA. RCCL will also do 9 short cruises to British Columbia.

Boston — Boston has become one of the top cruise ports in the nation with 77 cruise calls because of the popularity of New England-Canada cruises and Bermuda. The City's prominent position as a historical and cultural center and its proximity to regional markets makes it very marketable as a point of embarkation for Bermuda cruises. Carnival recently gave the City a vote of confidence by positioning a larger vessel, the *Destiny*, a 2,600 passenger ship for its New England-Canada cruises. Boston has certainly established itself as a cruise port but it has the potential for cruises that go South to the Mid Atlantic, South Atlantic and Florida ports. It is also a prime location for marketing charter and incentive cruises because of the presence of numerous large corporations and institutions, its large airport and popular visitor attractions.

Charleston — Charleston will have 23 cruise calls with 21,500 passengers. The Carnival also been positioned there. The charter and incentive market is also promising for Charleston's *Destiny* because of its proximity to fabulous golf attractions beaches and historical sites.

Baltimore will get 18 cruise calls next year, an increase from seven calls. But Baltimore is dependent on Bermuda sailings and because of the PSA can't market itself as a hub for American historical cruises. Next year, Holland America's Rotterdam will arrive from a Transatlantic voyage. It will generate hundreds of jobs for metal trade workers at Baltimore Marine Industries where it will be repaired. The Rotterdam will embark passengers for a Caribbean cruise terminating in Florida.

Philadelphia completed its cruise terminal last year after rehabilitating an old cargo pier. In 1999, 17 ships called with 21,000 passengers. The new terminal is a refurbished a former Navy Yard facility and cost the Port Authority \$ 5 million. Next year, 26 cruise calls are expected with new business from Philadelphia to Bermuda.

Cities like **Norfolk and Savannah** are planning new cruise terminals. The QE2 already comes into the cruise terminal at Newport News with proximity to Williamsburg and Virginia Beach. Savannah's business community is strongly behind our efforts. The need for changes to the PSA were evident when Celebrities' Zenith was not allowed to call at Savannah from Canaveral during Hurricane Floyd. U.S. Customs threatened to enforce the \$200 fine under the PSA.

Cruise marketing groups in the **Great Lakes** have successfully attracted two international cruise ships with European passengers to Chicago, Cleveland, Toledo, Saugatuck, Detroit and Duluth. There will be twelve cruise itineraries between Great Lake's ports and Canada. These local communities hadn't seen cruise ships in decades. But the Great Lakes reports logistical problems in having to work within the constraints of the PSA because some Great Lakes ports are too remote from Canada, adding days to itineraries.

These statistics show the moving trend towards opening new ports. While new ports and more calls have been added under the existing PSA structure, the potential for growth among these ports and others is much greater. If cruise itinerary planners weren't constrained by the PSA they would not have to include days in foreign ports that may not be as interesting to vacationers as a day in a U.S. port of call.

Or, smaller ports that are too remote from foreign ports would be able to break into the market in significant way. In California, and Washington State, we have prime examples of ports like Eureka, Monterey, and Grays Harbor that desire new cruise tourism but don't have a fair chance to pursue it because of the PSA. My own City of San Francisco, a Conde Naste destination, relies on longer Alaska cruises (10-12 days) as the core of its business. If two of our Alaska homeported ships leave, our Cities cruise numbers drop from fifty annual calls to 30. This was our experience in 1998 when local restaurants at Fisherman's Wharf were directly impacted by the loss of 43,000 passengers.

Every port (including the larger cruise ports) needs to diversify its cruise business to anticipate redeployment of vessels from their core business, weather changes or changes in the consumer marketplace. Additionally, larger cruise ports desire cruise calls on days besides weekends when the longer seven day cruise ports need facilities. As new cruise terminals are built with public and private capital, there is a need to keep them busy for more than one or two days a week when ships turn around.

Shorter Cruises are Fastest Segment of Cruise Market

S. 1510 will allow U.S. Ports that are too remote from foreign ports to compete in the booming short cruise market. According to the CLIA study, the cruise industries hottest growth category has been the 2-5 day cruise category. From 1980 to 1998, there was a **407.5% growth** in the 2-5 day cruise market versus 250.9% in the 6-8 day cruise market and 207.2% in the 9-17 day market. From 1983 to 1991, there was a steady decline in the length of cruise vacations is a reflection of more capacity being added in the short cruise market.

Shorter cruises offer travel agents exceptional marketing opportunities to put passengers **on the decks of ships**. Shorter cruises that cost less are more tempting for passengers who'd like to explore cruising as a vacation option without committing a longer period of time. They also appeal to baby boomers who have busy schedules and/or are juggling retirement and college tuition.

Once you get them on the deck of the ship, passenger satisfaction is very high. Whether first-time or frequent cruisers, **60% of those surveyed in the CLIA Report rated cruising better than other vacation experiences**. This means that travel agents will get these customers back to their agencies, because 95% of cruises are sold via travel agents.

Cruise line executives constantly remind travel agents at trade shows of how cruise vacationers desire for more choices. **More choices .. more ships, more attractions ... more cities!** These are the marketing themes of the industry. The industry has a huge marketing campaign to capture the other **89% of the U.S. population that haven't cruised**. Lines are aggressively competing for new and repeat cruises and are venturing to establish new cruise ports.

S. 1510 will provide international cruise lines with new opportunities to meet the consumer interest in new cruise destinations and shorter cruises. Ultimately, it will be a business decision for every international cruise line to review the legislation as passed and assess whether it will take advantage of it. Some may and others may not. But if market trends continue as they do, the opening of the domestic market will be very attractive to cruise lines competing for new and repeat cruisers. In the end, our Coalition will have done our job in advocating for legislation that has the least amount of restrictions to enter this market.

S. 1510 enables more U.S. cities to enable passengers to "sample" their destination, which is one of the reasons cited by passengers (79% of CLIA survey respondents) for why they enjoy their cruise vacation. **Nearly 50% of passengers surveyed in the CLIA study stated they expect to return to the same geographical area/destination for another** type of vacation. Local tourism businesses (i.e. hotels, buses, restaurants and retailers) will directly benefit from the cruise Passenger's visits and their return visits to their cities. For this reason, convention bureaus and state tourism associations have strongly supported the Cruising America Coalition's efforts.

Protections for Small U.S. Boat Companies

Our Coalition has always sought to fill the void in the market place of cruises aboard **large, overnight, deep sea going vessels without impacting the successful operations of smaller U.S. vessel operators**. S. 1510 responds to the concerns raised in last years hearing in the House Coast Guard Committee from smaller vessel operators over competition from larger international cruise lines. This bill prohibits the entry of international vessels under 9,000 GETS from entering the coastal cruise market. Between the range of 9,000-20,000 GETS, the vessel must have an all suite luxury configuration with cabin sizes not smaller than 240 square feet.

This language was drafted with the input of travel professionals who speak daily with customers and understand the difference in the type of entertainment and amenities that vessels offer. Smaller U.S. vessel operators highlight the benefits of a small yacht adventure cruise in their marketing brochures. Travel agents and prospective customers know the differences between large ocean cruises and smaller vessels. It is similar to travelers who know the difference between hotels and bed and breakfast. They do not compare and they do not compete.

Smaller U.S. flag vessel companies are thriving because they indeed operate in different niches. Alaska Sightseeing, for example, operates in a market where there are as many as 30 foreign flag cruise vessels, because both products are distinct. Similarly, the entry of the smaller Delta Queen vessels with 250 passengers (1580 GETS) will be a distinct product marketed to a certain type of cruise passengers. The new Delta Queen vessels will truly not be a competitor for the same customers as large U.S. Flag ocean liners in coastal itineraries.

In summary, Mr. Chairman, we thank you for your commitment to keep changes to the PSA at the top of this Committee's maritime agenda. Your leadership

and interest in opening up this U.S. market have been essential in getting us here today. We have produced a reasonable compromise full of incentives for opening up a new tourism product for our nation.

S. 1510 is **about new choices and new chances! It provides cruise customers with new choices** of U.S. ports. S. 1510 provides American ports, businesses and maritime workers with **new chances** to benefit from the boom in cruise vacations. Every U.S. port deserves a chance to tap into the growth of this market for the benefit of their local communities, regardless of their distance from foreign ports.

Thank you for this opportunity.

CRUISING AMERICA COALITION SUPPORTERS

PORTS AND CITIES

American Association of Port Authorities

Great Lakes:

American Great Lakes Ports

Port of Duluth

Port of Milwaukee

Port of Toledo—Lucas County Port Authority

City of Chicago

East Coast:

North Atlantic Ports Association (Maine, New Hampshire, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, Delaware & Maryland)

South Carolina State Ports Authority (Charleston)

Georgia Ports Authority (Savannah)

MASSPORT (Boston)

Fall River Line Pier, Massachusetts

Port of Philadelphia and Camden

Port of Baltimore

Port of Palm Beach

Gulf Coast:

Texas Port Authorities (13 ports)

Tampa Port Authority

Port of Galveston

Port of Houston

Port of Corpus Christi Authority

West Coast:

California Association of Port Authorities

San Diego Unified Port District

Port San Luis Harbor District, California

City of Monterey

Port of Los Angeles

Port of San Francisco

City of Eureka

San Luis Obispo Council of Governments

Humboldt Bay Harbor, Recreation and Conservation District

Port of Kalama, Washington

Port of Grays Harbor (Aberdeen, Washington)

NATIONAL, STATE & REGIONAL TOURISM ORGANIZATIONS

United States Tour Operators Association (USTOA)

National Council of State Tourism Directors

American Society of Travel Agents (ASTA)

Association of Retail Travel Agents (ARTA)

National Association of Cruise Only Agencies (NACOA)

American Hotel and Motel Association

American Bus Association

Society for Advancement of Travel for the Handicapped

STATE AND REGIONAL TRAVEL AND BUSINESS ASSOCIATIONS

Southeast Tourism Society (private businesses in 10 Southeast states)

Travel South USA (Southern travel directors in 12 states)

Great Lakes of North America Tourism Association (6 states)

Western States Tourism Policy Council (8 states)

Mississippi River County Tourism Association (10 states)

California Tourism Commission

California Travel Industry Association (CALTIA)
 California Trade & Commerce Agency
 California Hotel and Motel Association
 California Roundtable on Recreation Parks & Tourism
 California Chamber of Commerce
 Meeting Professionals International, Northern California Chapter
 Illinois Bureau of Tourism
 Texas Economic Development Council, Inc.
 Texas Department of Economic Development
 South Carolina Department of Parks, Recreation & Tourism
 State of Maine Department of Economic Development

CONVENTION BUREAUS & LOCAL BUSINESS GROUPS

Philadelphia Convention and Visitors' Bureau
 Greater Boston Convention & Visitors' Bureau
 Baltimore Area Convention & Visitors' Bureau
 Charleston Area Convention & Visitors' Bureau
 Tampa Hillsborough Convention & Visitors' Bureau
 Monterey Peninsula Convention & Visitors' Bureau
 San Diego Convention & Visitors' Bureau
 Los Angeles Convention & Visitors' Bureau
 San Francisco Convention & Visitors' Bureau
 Humboldt County Convention & Visitors' Bureau
 Saugatuck Convention and Visitors' Bureau, Saugatuck, MI
 Charleston Metro Chamber of Commerce
 Greater Boston Chamber of Commerce
 Galveston Chamber of Commerce
 Corpus Christi Hispanic Chamber of Commerce
 San Francisco Chamber of Commerce

The CHAIRMAN. Thank you very much, Ms. Sanchez. Mr. O'Toole.

**STATEMENT OF LAWRENCE H. O'TOOLE, PRESIDENT,
 MARINE ENGINEERS' BENEFICIAL ASSOCIATION**

Mr. O'TOOLE. Good morning, Mr. Chairman and members of the Committee, and thank you for this opportunity to speak to you today on S. 1510, the U.S. Cruise Ship Tourism Development Act. My name is Larry O'Toole, and I am the president of the Marine Engineers' Beneficial Association, the MEBA. I am also testifying on behalf of my own union as well as the International Organization of Masters Mates and Pilots, the MM&P, and the Sailors' Union of the Pacific, the SUP. I hope that all the Committee members realize that they should not construe my testimony today to be any change in our position on the Jones Act. All our unions strongly defend it, and this testimony should have no impact on it.

Now, less than a year ago I was serving on board a U.S.-flag tanker in the Persian Gulf. It is one of my many assignments in my career in the United States Merchant Marine that has taken me to places around the world, far from home and family, doing a job that demands a high degree of training and responsibility, but also one that I and other Americans who serve on U.S. flag ships are justifiably proud.

Today is the first time that I have testified before a congressional committee since my election last December as president, and I am pleased that at my first opportunity to appear before you I can speak on a bill that our maritime labor unions believe can make our industry stronger, provide badly needed maritime jobs, and offer new opportunities for our Nation's economy to grow.

The American working men and women of our maritime labor unions strongly support S. 1510 because it represents the only real-

istic, workable approach to give American companies and American workers a fighting chance to make it in the U.S. domestic cruise industry.

Today's market for vacation and business-related cruises on large, modern cruise vessels is served almost entirely by foreign-flag vessels. If this situation is ever to change, and we believe it can, it will only be through the innovative approach envisioned in S. 1510.

The bill calls for a temporary, limited waiver of the Passenger Vessels Services Act. This would create a short-term opportunity to use large, foreign-built, foreign-flag vessels and foreign-built, U.S.-flag vessels to test the viability of new domestic cruise markets.

There should be no mistaking the fact that such a waiver represents a marked departure for us, maritime labor. Maritime labor has long defended America's domestic shipping statutes, including the Passenger Vessels Services Act, but it has become abundantly clear to us that if something is not done, if a new and different approach is not tried, the cruise market in America will continue to be dominated by foreign-flag vessel operators, and there will be no opportunities for American workers and American companies to make any inroads into this constantly growing market.

S. 1510 contains language specifically stating the limited use of foreign-built, foreign-flag cruise vessels in the domestic trades shall not affect or modify the requirements applicable to the carriage of cargo under the Jones Act. This bill also recognized the undeniable fact that the conditions in our Jones Act cargo trades and in the domestic cruise trades could not be more different. The Jones Act will not be altered as a result of this legislation.

Once you come to the conclusion, as we have, that American workers are being shut out of their country's own cruise markets, it becomes clear that a new approach is called for. What we are proposing is an opportunity, a limited window of opportunity that has the potential to pay off in a big way for American companies and American workers. This window of opportunity will allow foreign vessels and foreign-built, U.S.-flag vessels to come into new and undeveloped cruise markets and provided that if their efforts succeed, the market will ultimately be served by U.S.-flag, U.S.-built, and U.S.-citizen crewed vessels.

I want to emphasize that S. 1510 is aimed at encouraging a rapid transition from a foreign-flag test market to a permanent, thriving U.S.-flag market. More importantly, it is the clear intent of this legislation, which we strongly support, that U.S. laws apply equally to all vessels in our U.S. cruise trade.

Any foreign-flag vessels brought into the domestic trades under this bill will have to comply with all U.S. rules and regulations relating to health, safety, environmental protection, and other operating standards, as set forth by the Secretary of Transportation, and these foreign-flag vessels will be subject to U.S. corporate income tax on the income they earn during the domestic portion of their operations.

I want to emphasize that this bill, as we understand it, does not adversely affect any American company. It represents opportunities for American companies, pure and simple. If someone can show that they will be economically disadvantaged and harmed by this

bill, we would be happy to work with them to find a solution that meets their needs, but as I have said, this bill represents real opportunity and hope for U.S. companies and American workers, while the alternative, the status quo, offers us nothing.

In closing, I would like to thank you once again, Mr. Chairman, for your leadership and for this opportunity to express our strong support for S. 1510. We also wish to thank the cosponsors of this important piece of legislation, Senators Hutchison, Feinstein, and Murkowski. The MEBA, the MMP, and the SUP together hope to see our Nation's domestic cruise market served by large, modern, attractive cruise vessels flying U.S. flags and carrying trained, loyal American-citizen merchant mariners.

I would be happy to answer any questions later. Thank you.

[The prepared statement of Mr. O'Toole follows:]

PREPARED STATEMENT OF LAWRENCE H. O'TOOLE, PRESIDENT, MARINE ENGINEERS' BENEFICIAL ASSOCIATION

Thank you for this opportunity to speak to you today about S. 1510, the U.S. Cruise Ship Tourism Development Act. My name is Larry O'Toole, and I am the President of the Marine Engineers' Beneficial Association (MEBA). I am testifying today on behalf of my own union as well as the International Organization of Masters, Mates & Pilots (MM&P) and the Sailors' Union of the Pacific (SUP).

Less than a year ago, I was serving on board a U.S.-flag tanker in the Persian Gulf. It was one of many assignments in my career in the United States merchant marine that has taken me to places around the world, far from home and family, doing a job that demands a high degree of training and responsibility, but also one that I and other Americans who serve on U.S.-flag ships are justifiably proud.

Today is the first time that I have testified before a congressional committee since my election last December as president. And I am pleased that at my first opportunity to appear before you I can speak about a bill that our maritime labor unions believe can make our industry stronger, provide badly needed maritime jobs, and offer new opportunities for our nation's economy to grow.

The American working men and women of our maritime labor unions strongly support S. 1510, because it represents the only realistic, workable approach to give American companies and American workers a fighting chance to make it in the U.S. domestic cruise industry. Today's market for vacation and business-related cruises, on large, modern cruise vessels, is served almost entirely by foreign-flag vessel operations. If this situation is ever to change, and we believe it can, it will only be through the innovative approach envisioned in S. 1510.

The bill calls for a temporary, limited waiver of the Passenger Vessel Services Act, to allow a short-term opportunity to use large, foreign-built and foreign-flag cruise vessels to test the viability of new domestic cruise markets. There should be no mistaking the fact that such a waiver represents a marked departure for us. Maritime labor has long defended America's domestic shipping statutes, including the Passenger Vessel Services Act. But it has become abundantly clear to us that if something is not done, if a new and different approach is not tried, the cruise market in America will continue to be dominated by foreign-flag vessel operators, and there will be no opportunities for American workers and American companies to make any inroads into this constantly growing industry.

S. 1510 represents a thoughtfully crafted compromise among a broad range of interests—including maritime labor, representatives of American ports and others who are members of the Cruising America coalition. Under the leadership of Chairman McCain, our maritime labor unions have sought compromise with other interests, and we are proud to have played a role in producing a proposal that gives our members and the American companies they work for a real shot at success.

Our support for S. 1510 in no way conflicts with our continuing and wholehearted support for the Jones Act. Our maritime labor unions have always been, and will continue to be, strong defenders of the Jones Act, because it remains essential to the economic and national security of the United States. S. 1510 contains language specifically stating that the limited use of foreign-built, foreign-flag cruise ships in the domestic trades shall not affect or modify the requirements applicable to the carriage of cargo under the Jones Act. This bill also recognizes the undeniable fact that the conditions in our Jones Act cargo trades and in the domestic cruise trades could not be more different.

Clearly, maintaining the status quo will never lead to the development of a large-vessel, American domestic cruise industry. The status quo has not and will not ever lead to more American maritime jobs. And the status quo has not and will not give American vacationers an American alternative to foreign-flag vessels—vessels that are crewed by Third World nationals, and whose owners use their foreign-flag status as a way to avoid the jurisdiction of American laws and to avoid paying state and federal taxes.

Once you come to the conclusion, as we have, that the status quo is not an acceptable situation, and that American workers are being shut out of their country's own cruise markets, it becomes clear that a new approach is called for. What we are proposing is an opportunity—a limited window of opportunity—that has the potential to pay off in a big way for American companies and American workers. This window of opportunity will allow foreign vessels to come into new and undeveloped cruise markets, and provide that, if their efforts succeed, the market will ultimately be served by U.S.-flag, U.S.-built and U.S.-citizen crewed vessels.

I want to emphasize that S. 1510 is aimed at encouraging a rapid transition—from foreign-flag test market to permanent, thriving U.S.-flag market. For the first year after enactment of S. 1510, only U.S.-flag vessels will be allowed to offer domestic cruise service, so ships brought under the U.S. flag will have first shot at the best new markets. Only U.S.-flag vessels will be able to offer the “convention tax deduction,” so U.S.-flag vessels will have an undeniable edge in the business convention market. And, U.S.-flag vessels will be able to “bump” competing foreign-flag vessels off an itinerary comparable to its own. And only U.S.-flag vessels will be able to remain in the domestic trades after 2006.

Most importantly, it is the clear intent of this legislation, which we strongly support, that U.S. laws apply equally to all vessels in our U.S. cruise trade. Any foreign-flag vessels brought into the domestic trades under this bill will have to comply with all U.S. rules and regulations relating to health, safety, environmental protection and other operating standards, as set forth by the Secretary of Transportation. And these foreign-flag vessels will be subject to U.S. corporate income tax on the income they earn during the domestic portion of their operations.

I also want to emphasize that this bill as we understand it does not adversely affect any American company. It represents *opportunity* for American companies, pure and simple. If someone can show that they would be economically disadvantaged and harmed by this bill, we would be happy to work with them to find a solution that meets their needs. But as I have said, this bill represents real opportunity and hope for U.S. companies and American workers, while the alternative—the status quo—offers us nothing.

Right now, the only place in the United States where a large U.S.-flag cruise ship can be found is in the Hawaiian Islands. Outside of the Hawaii trades, no one has operated a large cruise vessel in the United States in more than 40 years. But it is obvious that there is a market for vacation cruises outside the Hawaiian islands, because large, modern cruise ships leave American ports outside Hawaii every day, carrying thousands of American vacationers. S. 1510 represents the best, most reasonable, most workable approach to give our country's workers an opportunity to benefit from those vacation dollars.

In closing, I would like to thank you once again, Chairman McCain, for your leadership and for this opportunity to express our strong support for S. 1510. We also wish to thank the cosponsors of this important piece of legislation—Senators Hutchison, Feinstein and Murkowski. The Marine Engineers' Beneficial Association, the International Organization of Masters, Mates & Pilots, and the Sailors' Union of the Pacific together hope to see our nation's domestic cruise markets served by large, modern, attractive cruise vessels flying the U.S. flag and carrying trained, loyal American-citizen merchant mariners. I would be happy to answer any questions you might have.

The CHAIRMAN. Thank you, very much, Mr. O'Toole. We appreciate very much your being here, and by the way, we also appreciate your many years of service to our country.

Mr. Walker, welcome.

STATEMENT OF ALLEN WALKER, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. WALKER. Thank you, Mr. Chairman, and thank you for the opportunity to testify this morning. My name is Allen Walker. I am the president of the Shipbuilders Council of America. SCA is the

national trade association representing the domestic shipyard industry that builds and repairs commercial and Government vessels. We represent 50 shipyard companies that own and operate over 100 shipyards in 20 States.

Mr. Chairman, we share your goal of expanding the cruise ship industry in the United States. An industry offering wide consumer choice and providing shipbuilding and repair opportunities for American yards would certainly be a win-win situation for everyone.

In that regard, SCA worked during the last Congress with Senator Breaux's office and several of the parties testifying here this morning on legislation aimed at encouraging growth in our domestic cruise ship industry while protecting U.S. shipyards against further harm from the infusion of heavily subsidized foreign-built ships.

As I understand it, the bill before us today would basically create incentives aimed at encouraging foreign-flag cruise ships to enter the U.S. market with the eventual goal of creating an expanded U.S.-flag cruise ship industry.

We believe to be successful any initiative aimed at cruise ship growth in the U.S. must address the reasons why our domestic industry's growth lags behinds its foreign competition and also encourages expansion of the U.S.—flag fleet. We believe that these efforts should be focused on easing entry into the marketplace for U.S. companies that are committed to operating the U.S.-built and U.S.-crewed vessels.

For example, one of the biggest obstacles to market entry for new operators is the difficulty of finding adequate financing to build vessels. One way we think that would solve this problem would be for Congress to accelerate the depreciation schedule for newly built U.S.-flag cruise ships. We think this would significantly ease the financing requirement at no cost to the American taxpayer. Measures like this would accomplish the same goal as S. 1510, the one we share.

Mr. Chairman, any legislation that encourages the use of used foreign-built vessels in the U.S. marketplace without a strong requirement that they be replaced in a timely manner with U.S.-built tonnage will harm our domestic shipbuilding industry. Our industry has been crippled in the international marketplace by foreign Governments that subsidize the cost of vessel construction in their shipyards. In fact, the cost of construction of every single cruise ship eligible to enter the U.S. market under this legislation was subsidized by a foreign Government.

For example, the SUN PRINCESS, which cost at least \$417 million to build at the Fincanterry Shipyard in Italy in 1993 was sold to Princess Cruise Lines for \$300 million. The \$117-million difference was paid for with a subsidy from the Italian Government to the shipyard.

To put that figure in perspective, that one subsidy payment alone is more than the entire title XI loan guarantee appropriation for the past 4 years.

At this point, Mr. Chairman, I would like to thank you, Senators Breaux and Lott, Senator Hutchison, and others for your efforts to rectify this situation with your support for the OECD shipbuilding

agreement, but despite all our best efforts, foreign subsidies have denied American shipyards any real opportunity to participate in the boom in cruise ship construction. Now allowing these subsidized foreign-built vessels to operate in our coastwise trades at a competitive advantage over U.S. operators would stop the momentum that has finally begun to build in the U.S. cruise ship industry.

Today, small- and mid-size cruise ship operations between U.S. ports are expanding. Two 226-passenger coastal steamers are currently under construction at Atlantic Marine in Jacksonville, Florida, and the company has an option to build another identical vessel. Nichols Brothers Boat Builders in Freeland, Washington is converting an unfinished casino vessel into a state-of-the-art 161-passenger cruise ship, and America West Steamboat Company is in serious discussions with several yards to add another cruise ship to its U.S.-flag fleet.

Furthermore, two additional operators are negotiating with U.S. yards right now to build two more medium-sized cruise ships. These are real shipbuilding opportunities, and the operators involved have already hired naval architects, at considerable cost, to design these vessels.

Mr. Chairman, the changes proposed in S. 1510 would have a negative impact on the current growth of the U.S.-flag cruise ship fleet. Without a doubt, operators would be forced to reevaluate each of these building projects in light of added foreign competition.

I know there are those that argue that the provisions in S. 1510 would not slow the growth of the small and mid-size U.S.-flag cruise ship industry, because the targeting vessels would be different, or much larger than the vessels under construction today. We could agree with that assertion, except for the fact that the foreign-flag vessels would operate with considerable tax, labor, and capital asset cost advantages, allowing them to charge significantly less for cruises in the same markets.

U.S.-flag cruise ship operations both big and small will be hurt by foreign-flag operations that can charge less for a cruise in the same market due to the competitive advantages they enjoy.

Now, having expressed our concerns about the direction of the legislation, we also believe that there are provisions in the legislation that could benefit American shipyards. We are pleased that the bill includes a U.S. repair provision, but we are concerned about how the provision will be enforced, in light of the fact that these foreign-flag vessels can move in and out of the U.S. trades at will.

Mr. Chairman, in the final analysis, Congress must make a decision whether to encourage growth in the domestic cruise ship industry by offering incentives to foreign-flag vessels to enter our trades, or by looking for ways to expand U.S.-flag operations. We respectfully urge the Committee to adopt the latter option. Our economic and national security depends on a strong and vibrant shipbuilding industry. We must not allow this vital industry to be further harmed by an international marketplace where successful shipyards are determined by how much of the construction cost of a vessel their Government is willing to underwrite.

In closing, let me again emphasize how much we appreciate your efforts to expand the cruise ship industry, and express our willingness to work with you and others to accomplish the goal.

Thank you, and I would be happy to answer any questions.

[The prepared statement of Mr. Walker follows:]

PREPARED STATEMENT OF ALLEN WALKER, PRESIDENT,
SHIPBUILDERS COUNCIL OF AMERICA

Mr. Chairman and members of the Committee, thank you for the opportunity to testify this morning on the United States Cruise Ship Development Act of 1999.

My name is Allen Walker and I am the President of the Shipbuilders Council of America (SCA). SCA is the national trade association representing the domestic shipyard industry that builds and repairs commercial and government vessels. SCA represents 50 shipyard companies that own and operate over 100 shipyards in 20 states. Our members employ approximately 35,000 workers, more than 70 percent of the total domestic shipyard workers primarily engaged in non-Navy shipbuilding. SCA also represents 30 affiliate companies that provide goods and services to the shipyard industry.

SCA member companies build, repair and service passenger vessels including cruise ships, ferries, tugboats, towboats, barges of all kinds, vessels and rigs for the offshore oil industry, fishing vessels, large yachts, Coast Guard and other government craft and any other type of workboat you can name. The owners and operators of these companies are true entrepreneurs in every sense of the word. They operate in an extremely competitive environment without government subsidies and they are good at what they do.

The Passenger Vessel Services Act (PVSA) is important to the continued success of a large number of SCA shipyards and to the U.S. shipyard industry in general. Many of our shipyards are building, have built or have the capability to build small and mid-sized cruise ships. Companies like Atlantic Marine, Gladding Hearn, Blount Industries and Chesapeake Shipbuilding on the East Coast; the Halter Marine Group, Bollinger Shipyards, Bender Shipbuilding & Repair, First Wave Marine and Leevac Shipyards on the Gulf Coast; Nichols Brothers Boat Builders, MARCO Seattle and Todd Shipyards in the Pacific Northwest; Marinette Marine and Bay Shipbuilding on the Great Lakes; and, Jeffboat in the nation's heartland have the know-how, experience and capacity to build passenger vessels. Let me assure you that the U.S. shipyard industry is ready, willing and able to meet the shipbuilding needs of anyone interested in operating cruise ships in our domestic coastwise trades.

Mr. Chairman, thank you for holding this hearing and for your interest in expanding the cruise ship industry in the United States. This morning I would like to make some general comments about the shipyard industry and how the legislation under consideration today would affect it. As I understand this legislation, the bill would basically create a number of incentives aimed at encouraging foreign-flag cruise ships to enter the U.S. market with the eventual goal of creating an expanded, U.S.-flag cruise ship industry.

Certainly, SCA shares your goal of expanding our coastwise cruise ship industry. A U.S.-flag cruise ship industry offering wide consumer choice and providing shipbuilding and ship repair opportunities for American shipyards would be a win/win situation for everyone. We also agree that the speculative and untested nature of much of the U.S. market requires that incentives of some kind be offered to speed growth in our domestic cruise ship industry. No one can question the fact that the U.S.-flag cruise ship industry has not kept pace with the dramatic growth of the industry worldwide.

SCA supports efforts to encourage growth in this industry and, in the past, has worked with other interested groups to craft legislation with this goal in mind. In fact, during the last Congress we worked with Senator Breaux's office and several of the parties testifying this morning on legislation that would encourage growth in the domestic cruise ship industry and protect U.S. shipyards against further harm from the infusion into our domestic market of heavily subsidized, foreign-built cruise ships.

However, SCA believes strongly that any initiative aimed at cruise ship industry growth in the U.S. must address the reasons why our domestic cruise ship industry lags behind its foreign competition and encourage U.S.-flag cruise ship growth. We believe that failure to address these issues will result in, at best, a temporary fix at the expense of current U.S.-flag cruise ship operators, operators with plans to enter the market and our domestic shipbuilders.

SCA believes that efforts to promote growth in this industry should be focussed on easing entry into the marketplace for U.S. companies that are committed to operating U.S.-built and U.S.-flag vessels, not on encouraging further growth on the foreign side. U.S.-flag cruise ship operations have been disadvantaged for too long by foreign-flag cruise ship companies operating with considerable competitive advantages. Foreign-flag cruise ships today operate virtually tax exempt, while U.S.-flag operators pay U.S. corporate income taxes; foreign-flag operators employ third world crews at a fraction of the cost of U.S.-flag vessel crew costs; they operate outside U.S. environmental laws, and last, but not least, they have long had and continue to have the ability to purchase heavily subsidized vessels in foreign shipyards. U.S. consumers, through lack of domestic cruising options, and U.S. shipyards, through lack of shipbuilding opportunities, have paid a high price for these market inequities.

SCA members are committed to working with Congress to find ways to accelerate the growth in the U.S.-flag cruise ship industry. For example, we have found that one of the biggest obstacles for new U.S.-flag operators wishing to enter our market today is the difficulty of finding adequate financing to build vessels and establish their operations. Right now, more than one potential cruise ship operation is on hold waiting for adequate financing to construct a vessel. At this point, cruises between U.S. ports are speculative operations and credit requirements for loan applications are difficult to meet for start-up companies. Congressional action aimed at alleviating this problem would go a long way towards meeting our goal of building more cruise ships in the U.S. and expanding cruising opportunities for U.S. consumers.

One way to ease the financing difficulties of U.S. operators wishing to enter this market under the American flag would be for Congress to enact legislation allowing companies building new cruise ships in the U.S. to depreciate vessels over a much shorter period of time than is currently allowed. This would significantly ease financing requirements at no cost to the American taxpayer. This is just one example of the kind of measure that we believe would accomplish the same goal as S. 1510, without putting U.S. companies at a competitive disadvantage in the U.S. marketplace and jeopardizing U.S. shipbuilding opportunities.

I will focus the remainder of my remarks this morning on how changes to the PVSA contained in S. 1510 would affect the segment of the U.S. shipbuilding industry that I represent. Mr. Chairman, any legislation that encourages the use of used, foreign-built vessels in the U.S. marketplace, without a strong and enforceable requirement that these vessels be replaced in a timely manner with U.S.-built tonnage, will harm our domestic shipbuilding industry.

As all of you are aware, in many areas the U.S. shipbuilding industry has been crippled in the international marketplace by foreign governments that subsidize the cost of vessel construction in their shipyards. No segment of the industry has been more affected by foreign subsidies than the cruise ship industry. In fact, the cost of construction of every foreign-built cruise ship that would be eligible to enter the U.S. market under the terms of this legislation was subsidized by a foreign government, some as much as 33 percent in direct subsidies plus incalculable indirect subsidies.

It should come as no surprise given the magnitude of foreign shipbuilding subsidies that their effect on U.S. shipyards has been devastating. Our shipyards have been denied any real opportunity to participate in the boom in cruise ship construction. Now, allowing these heavily subsidized, foreign-built vessels to operate in our coastwise trades at a competitive advantage over U.S. operators would compound the problems caused by foreign shipbuilding subsidies and stop the momentum that has finally begun to build in the U.S.-flag cruise ship industry.

Yes, it is true that no large, U.S.-flag cruise ships are currently operating between coastal ports in the continental U.S.; however, it is not true that no U.S.-flag cruise ship industry exists. In fact, small- and mid-sized cruise ships are operating between U.S. ports and the industry is growing. Two 300-foot, 226 passenger cruise ships that will serve the domestic coastal market are currently under construction at Atlantic Marine in Jacksonville, Florida and the same company has an option to build another identical vessel. The operator has also announced its intentions to continue its building program. Nichols Brothers Boat Builders in Freeland, Washington is converting an unfinished casino vessel into a state-of-the-art, 218-foot, 161-passenger overnight cruise ship and America West Steamboat Company is in serious discussions with several yards to add an additional cruise ship to its U.S.-flag fleet. In addition, two other cruise ship operators are in serious discussions with U.S. shipyards about building two more U.S.-flag cruise ships—one for the East and Gulf Coast market and another for the West Coast market. These are real shipbuilding opportunities and the operators involved have already hired naval architects, at considerable costs, to design these 375-foot long vessels.

Mr. Chairman, we fear that the changes proposed in S. 1510 would have a negative impact on the current growth of the U.S.-flag cruise ship fleet and the shipbuilding opportunities that come with that growth. Without a doubt, operators would be forced to reevaluate each of these building projects in light of added foreign-flag competition that would come as a result of S. 1510.

There are those that argue that the provisions in S. 1510 will not slow the growth of the small and mid-sized, U.S.-flag cruise ship industry, because the vessels eligible to enter the U.S. market under the terms of this bill are different or much larger than the vessels under construction today in SCA member shipyards—even that the larger, foreign-flag vessels will complement, not compete against, our domestic fleet. We could agree with that assertion except for the fact that the foreign-flag vessels will operate with considerable tax, labor and capital asset cost advantages, allowing them to charge significantly less for cruises in the same markets. Mr. Chairman, U.S.-flag cruise ship operations, both big and small, will be hurt by foreign-flag operations charging significantly less for a cruise in the same market.

Having expressed our concerns about the direction of the legislation, we also believe that there are provisions in the legislation that could benefit American shipyards. SCA is pleased that this bill includes a provision requiring foreign-flag vessels obtaining a waiver to participate in the U.S. trades to have all necessary repair work to enter the U.S. market and subsequent repair work performed in a U.S. shipyard. We are concerned; however, about how this provision would be enforced, especially in light of the fact that these foreign-flag vessels can move in and out of the U.S. trades at will. Moreover, there is no requirement that any upgrades performed after entry must be in a U.S. shipyard.

Mr. Chairman, in the final analysis Congress must make a decision: whether to encourage growth in the cruise ship industry in the U.S. by offering incentives to foreign-flag vessels to enter our trades or by looking for ways to promote U.S.-flag operations. We respectfully urge the Committee to adopt the latter option. It may be the more difficult option, but it is the right option to choose. Our economic and national security depend on a strong and vibrant shipbuilding industry. We must not allow this vital industry to be further harmed by an international marketplace where successful shipyards are determined by how much of the construction cost of a vessel their government is willing to underwrite. Mr. Chairman, I would like to take this opportunity thank you, Senators Lott and Breaux and others for your unwavering support for the OECD Shipbuilding Agreement, which we believe would have gone a long way towards eliminating the international shipbuilding subsidies that are wreaking havoc in the world shipbuilding market.

In closing, I want to again emphasize that SCA greatly appreciates your efforts to expand the cruise ship industry and express our willingness to work with you and other interested parties to accomplish that goal. We understand that this will not be easy and that our goals will not always coincide with those of other interested parties, but we believe that the benefits are worth the effort. A vibrant U.S.-flag cruise ship industry will mean more American shipbuilding and merchant marine jobs, enhanced national security, more tax revenue for federal, state and local governments and more cruising options for our citizens—a win/win situation for all concerned.

Again, thank you for the opportunity to testify. I will be happy to answer any questions.

The CHAIRMAN. Thank you very much.

Senator HUTCHISON.

Senator HUTCHISON. Thank you, Mr. Chairman.

Mr. Chairman, I want to thank you first for your leadership in having this hearing. Again, we have come a long way since 2 years ago when we had our last hearing. I really think there is a nugget here, after listening to each of the individuals, and so I do want to ask a couple of questions.

I think Mr. Welch brought up some valid points, and I just wanted to ask you if you think that the fact that the bill does give the Secretary, in conjunction with other Federal agencies, the power to enumerate all the rules, regulations, and operating requirements relating to health, safety, environmental protection, and anything else that would be required for any foreign-flag vessel to come into

our U.S. ports, if that would not level the playing field to an extent that you would feel comfortable on those issues.

Mr. WELCH. Two comments to that, Senator. First, the way I read the bill, the Secretary of Transportation does not have the authority to make decisions about a wide range of laws such as the Americans with Disabilities Act, the Fair Labor Standards Act, a variety of other economic type of laws.

There is the authority for the Secretary to make judgments about operating laws or environmental laws, so the Secretary's authority is not as broad. It does not cover the full range of laws that apply to our ships.

Second, we are really hesitant about Congress deferring that decision to an individual, the Secretary of Transportation. We see all too frequently inequitable results when Congress refers tough choices to the agencies.

My brother is general counsel of the FCC, and they are struggling with the Telecom Act, and they are catching all sorts of grief, because Congress did not give sufficient direction as to what they wanted, and I think deferring that decision to a single individual, no matter how well-intentioned, is not the way to go.

If Congress is going to pass legislation, Congress should say specifically this law or that law does or does not apply. They should not defer it to the Secretary of Transportation. Of course, all my comments about what laws apply would be solved if what you were talking about were American flag ships.

So, for example, Mr. Wallack's ships, the way I understand, he's proposing a reflag. None of the observations I make, or made earlier, would apply in that situation.

Senator HUTCHISON. Let me take that, because that is something I have just been discussing with our staff counsel, and that is, would it be feasible, and would it add to the industry in reality to allow foreign-built ships be reflagged to U.S.-flagged ships? Would that increase the capabilities, and would, in fact, enough ships come into the market that we would be increasing the opportunities for consumers in the tourism industry and the ports?

Mr. WELCH. Well, last Congress our association was in discussions with Senators and staff folks about, and some of the folks here at the table about possible legislation that would allow reflagged ships to come in under certain circumstances, and there was an effort also at that point to try to protect our size smaller ships from this type of lower capital cost competition, and so we would be willing to reengage in discussion on something like that.

We prefer to see U.S.-built, U.S.-flag ships, but the real difficulties about the application of laws comes when you allow foreign-flag ships in, and under the bill, the way I read it, there is a period of up to 7 years when foreign-flag ships can operate without making any legal binding commitment that they have to replace their tonnage with U.S.-flag vessels.

The CHAIRMAN. Can I interrupt one second, Senator Hutchison? We kind of free-flow sometimes here. We would prefer to see U.S.-built and U.S.-flag ships, too, but it has been 40 years since one has been built. We just saw a recent example of Newport News that was going to get into the business and failed. It is nice to say

that we would prefer these things. We would prefer a lot of things, but I do not share your optimism, in view of the record.

I am sorry to interrupt, Senator Hutchison, but I think it is a logical follow-up to your question.

Mr. WELCH. If I could, Senator, I testified about how there is a market segment right now that I represent of smaller U.S.-flag passenger vessels.

The CHAIRMAN. This legislation only affects larger vessels.

Mr. WELCH. But, sir, the way we read it, this would allow vessels to carry as few as 200 passengers, foreign-flag vessels that carry as few as 200 passengers, and I can identify the vessels for you, to come into the trade, and we see that as competing with our vessels that carry roughly the same number of passengers, so we do not believe—with all due respect I do not see—the protection you are citing I do not think is effective for our existing U.S.-flag vessel operators.

The CHAIRMAN. Thank you.

Senator HUTCHISON. Let me just say that I think that of course what Senator McCain says is true, and we are talking about big vessels, and even with the encouragement and cajoling and also pressure from the Senate Majority Leader, he cannot even get a big ship built in Mississippi for cruise purposes, and so I think we are talking about apples and oranges, and I think we may be seeing the potential here for U.S. flagging giving shipbuilders repair and replacement part opportunities which would add to their business, trying to level the playing field in every possible way. That is what we want to do.

There is no question, certainly in the income tax area on any business that is done in our ports we need to level the playing field. There is no question about that. So I would just ask you all to look at ways that we can add to everyone's opportunities, and add something to every segment, and let us forge a coalition and get this bill out.

We will not be able to get it to the floor without the agreement and consensus of everyone that has an interest, but I think we are missing a huge opportunity for our country in jobs, in use of our ports, and adding to the shipbuilding capabilities, and we are talking about 3 years. If we do so well that we encourage a U.S. shipbuilder to say, hey, I see the potential here and I am going to build a ship, then we are out of here. Then that has created a market that is not there now, and we will readdress, because this would go out of existence in 3 years.

So I think we need to open our minds and look at the opportunities here, and I do see a nugget of agreement, and I want to get all of our heads together and make this happen, and Mr. Chairman, I am willing to do that, and work with you, and with them, and see if we cannot do something good for everyone here.

Thank you.

The CHAIRMAN. Thank you very much, Senator Hutchison. I am very grateful for your considered involvement in this issue. Senator Burns.

Senator BURNS. Thank you, Mr. Chairman. I just have a couple of questions. We do not get a lot of big cruise ships that stop in Montana.

[Laughter.]

Senator BURNS. But one more earthquake, and we may.

[Laughter.]

Senator BURNS. I am interested in this because—and Mr. Welch, I was told that we have only got one flag, and that is in Hawaii. Where are the rest of them?

Mr. WELCH. Sir, we have approximately 22 existing U.S.-flag vessels. All except for one right now are what we would call medium or small U.S.-flag vessels, and we are talking anywhere from the 75 to 250 passenger range. Several of them operate with headquarters in the Seattle area, and they serve Southeast Alaska in the summer, and then as the winter progresses they move down to the Columbia River.

Some of them, one of them the operators goes into San Francisco Bay and up the Sacramento River, and then down to Southern California in the winter.

We also have operators on the East Coast that have selected routes up and down the East Coast and the Gulf, and a couple of them go into the Great Lakes.

You need to understand that these routes are not permanent routes. In other words, the vessels will sail two or three times a year on one particular itinerary, and then they will move to another itinerary. The market is not such that you can keep your vessel in the same route the entire year, but I can provide you—in my testimony I provide the names of the companies and a little bit of information about the vessels.

We also have seven vessels, additional, that are either under construction or will be in yards in the next year or two, so this is a growing and workable segment of the U.S. maritime industry, and we fear that the way the bill is written in its shot at large vessels is going to perhaps unwittingly have some negative impacts on our smaller vessels.

Senator BURNS. Tell me, do we have access to foreign ports with American flags? Is not the playing field level? Are we prevented right now—a foreign-flag, he can come in, but he cannot stop in a second port in the United States? In other words, his next stop has to be at a foreign port. Are those requirements made in any other country other than this country?

Mr. WELCH. Senator Burns, there are various—first on the international voyages, any U.S.-flag vessel, just like any other foreign-flag vessel, can make an international voyage to another country's port, so that is pretty much standard. There are different types of cabotage laws around the world, and there are some restrictions.

For example, some of the Mediterranean countries restrict their passenger carriage between their own individual ports to either their own flag vessels or perhaps some other EU-flag vessels. They are beginning to expand the cabotage of the Europeans. For example, restricting the Greek Isles to only Greek Isle ships, that is beginning to be—the EU is pressing them to say, open that up to other EU-flag vessels.

Senator BURNS. Mr. Wallack, you have shown some interest in the last question I asked.

Mr. WALLACK. Yes, because it has not been a level playing field up to now, but it really was irrelevant, because there were not any

American ships to go into it. None of the smaller vessels could transit, or were transiting the ocean to get to the other side to compete. Until January of this year if you wanted to cruise round-trip from the Piraeus in Greece, you had to have the Greek flag. As of the first of this year, now any EC-flagged ship can do that kind of cruising.

So it is not a matter of not having the opportunity, it is just that there are not any U.S.-flag ships to do that. If we develop a cruise industry here, we could begin to challenge these kinds of exclusions.

Senator BURNS. Do you think this legislation would enable that?

Mr. WALLACK. Yes, I think it will. I think we are not going to create a U.S.-flag cruise industry full-blown from the head of Zeus. I think we have to have a beginning, and great companies begin by taking small steps. Carnival Cruise Lines, probably the best cruise line, largest cruise corporation in the world, started with one converted liner.

A great guy, Ted Arenson, who recently passed away, acquired one old liner—I think it was a Zim Line—and began Carnival Cruise Lines with it, and knew if he was successful with these older ships, he could afford to build and buy new ships.

I am encouraged by the fact that American Hawaiian is able to move forward with the building of a ship in the United States. I know that it is not profitable for shipyards to build one ship, or even two. They have to build three or four, or six, in a series in order to make it a profitable operation. The shipbuilding industry in the United States needs the support of U.S.-flag cruise lines to step up to the table and order those kinds of vessels.

In our case, we want to order blue water ships, large, economical, big cruise ships, the kind that compete in the world today, and we believe that American shipyards can produce these kinds of ships. We do have confidence that the small ship business can work and coexist within that environment. It does now.

We have so much of a commitment to that idea that we have recently negotiated an agreement with Goldbelt, a Native American corporation in Alaska, to take over their four-ship overnight cruise operation based in Seattle. So we have a commitment on both sides to do both small-ships and large-ships, because we believe it is part of the same marketing grab, if you will, and can be comarketed very, very nicely, and very profitably.

Senator BURNS. I was a cosponsor of last year's bill, and I am also a cosponsor—I assume I am. We have been doing other things around here—because I just think it opens up the market. I really do not see where the big vessels of the 2,500 to 3,000 capacity is going to make much of an impact on your business, Mr. Welch, because I think it is two different markets.

Mr. WELCH. Well, Senator, all I can report is the amount of operators that feel that they are to some degree in competition with large. In fact, part of the problem is not just the size of the ships. Part of the problem is the cost of the cruise.

For example, if you go out on an international-flag cruise ship you are going to see a wide range of ticket prices. The cost of the cruise, I do not know exactly what their marketing strategies are, but they range from high to low, and there will be lots of folks on

those cruise vessels that are paying less than what our U.S.-flag operators—so I agree that the type of service that we are operating is somewhat different, but it is not totally different, and it is also somewhat price-dependent, and when you have foreign-flag vessels—and that is what we are concerned about.

We are not so concerned about a U.S.-flagged vessel, a larger U.S.-flagged vessel competing against us. That is the breaks, you know. We will compete against them however best we can. But when we have to compete against a foreign-flagged larger cruise vessel, and they are offering a price that is lower than what our fellows can offer, that is where we start having problems.

Senator BURNS. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Mr. O'Toole, what is it that prompted you and your organization to be involved in this issue?

Mr. O'TOOLE. Well, Mr. Chairman, let me just give a little story. When I was 28 years old I sailed on the SS BRAZIL. It was a cruise ship. I sailed on the SS UNITED STATES, when that owned by was U.S. Lines. I sailed with Grace Lines, on the SS SANTA PAULA. That was when I was 28. I am 58 now, and I have not seen a U.S.-flagged passenger ship since then, and I think my time is running out. In fact, it has run out.

I was just up at Kings Point for my homecoming. I saw graduates, potential graduates from the Merchant Marine Academy in their splendor. It was a glorious day up there, this past weekend, and I thought to myself as I was watching them parade around, they are going to come to me in a few years and ask for a job, and I am going to have only a few jobs to give them, and so our union decided to go into this for the opportunity of jobs for our members, and we see this as an opportunity, a real opportunity. That is why we joined this coalition.

The CHAIRMAN. Well, I thank you, and your support is of significant importance to us.

Mr. Welch, I do not want to have this Committee beat up on you just because we have some disagreement here. We want you here in this debate and discussion, because as Senator Hutchison said, I hope that we can arrive at some agreement.

Did your organization support the action taken by Congress to allow the use of a foreign-built cruise vessel in Hawaii?

Mr. WELCH. We did not have a position on that as an organization. Now, the company is a member of our association.

The CHAIRMAN. Well, has that exemption hurt the Jones Act?

Mr. WELCH. That exemption is going to bring in an additional U.S.-flag vessel, and it is going to bring in two newly constructed U.S.-flag large passenger vessels, and they are going to be U.S.-flag vessels, so we think that that is going to be a positive benefit to the entire industry.

The CHAIRMAN. Ms. Sanchez, you heard Mr. Welch say there is room for optimism, I believe he said because we have U.S.-flag carriers. Do you share that optimism?

Ms. SANCHEZ. Mr. Chairman, the U.S.-flag vessels that he is talking about that he has well-described, they are a fleet of smaller passenger ships. In fact, if you look at the marketing brochures re-

ceived by the travel agents that are given to consumers, they state they are small yacht adventure cruises.

They talk about the differences between their vessels and the large ocean liners, and so it is interesting that for marketing purposes they highlight the differences, but for legislative purposes, they highlight the similarities, and I do want to clarify that the legislation, the vessels of the 200-passenger range that Mr. Welch referred to, the international vessels that he is referring to, those would be required to be all suites, with a minimum cabin size.

Those are vessels that the PVA's vessel owners do not have vessels of that category, so you can see the length to which we tried to make sure that there were wide gaps so that there would not be head-to-head competition, so I think that is an important point to point out.

The CHAIRMAN. Ms. Colenda, recently there have been some very serious transgressions committed by foreign-flag operators, environmental abuses, major fines, and on a couple of occasions in the past I have been assured that these violations have been brought to a halt, and yet we see recurrences of them.

I have a reputation for speaking somewhat candidly. It hurts our efforts if these kinds of infractions of law, violations of law continue. Can you enlighten the Committee, or give us some comments and commitments as to this situation being remedied?

Ms. COLEND. Thank you, Senator McCain. The International Council of Cruise Lines has recently adopted, and the top executives of our companies have recently adopted, several major initiatives to deal and respond specifically to some of the issue areas, the major issue areas where there have been some concerns.

We just recently released an environmental policy statement where the cruise industry is committed to protecting the environment, is working to enhance, as an industry to enhance and further strengthen environmental programs, in recognition of the fact that there have been some issues. So the top executives of this industry association have set policy goals for the future to look for ways to improve.

In particular, another thing that we responded to, another issue we responded to this summer is incidents of on-board passenger security. The number 1 priority for our industry is protecting our passengers, providing for the safety of our passengers, providing security for all passengers on board, so as an industry association, and representing 17 of the major companies, we have strengthened our commitment in many major areas and look forward to working with Congress.

We listen to regulators, we listen to the international community, and we look for ways to improve in the future, and that is what we are doing as an association.

The CHAIRMAN. In the case of an allegation of assault, can you assure me that every allegation will be reported and treated as if it were a crime that were committed in the United States of America?

Ms. COLEND. That is exactly what our policy does, Senator McCain. What we have agreed to do as an industry association is that when there is any allegation of any sort which we do not tolerate, we have issued a zero tolerance policy. We would report it

to the appropriate authorities. When it is a U.S. citizen, the appropriate authority is the Federal Bureau of Investigation.

The lines involved independently have a security officer on board every ship who would conduct a preliminary investigation, collect evidence, and turn over to the appropriate authorities immediately any kind of serious allegations that occur on our ships, because our primary goal is to keep passengers coming back year after year, and we do carry 5 million passengers.

As an association, our industry carried 5 million passengers last year, and our primary commitment is assuring the safety and security of these passengers so they will come back year after year. Our success has been that we have a good record in that regard.

The CHAIRMAN. This policy statement, you have been working with the EPA on it?

Ms. COLEND. Yes. What we are going to do is—we are conducting the primary work through our Coast Guard partnership, working with the Coast Guard, because we have a formalized partnership with them. But we will also work with environmental organizations like the EPA and others, like the President's Council on Environmental Quality, and other high-level environmental associations or administrations.

The CHAIRMAN. I would like for you to work with them, and I would like for you to get letters from them endorsing, or making additional recommendations to your policies, because these are the people who I think you need to get their endorsement and support of your efforts.

You have got a credibility problem right now, and I think to have our various agencies of Government to oversee these issues will be very helpful.

Mr. Walker, do you think that S. 1510 would not test new markets?

Mr. WALKER. I think S. 1510 would test new markets.

The CHAIRMAN. You think that smaller cruise vessels will be hurt by larger foreign cruise vessels, because larger vessels can charge less?

Mr. WALKER. Larger foreign-flag vessels can charge less than smaller U.S.-flag vessels can charge. I think—I do not have the numbers, but I think it is fairly well-documented that you can take a foreign-flag cruise now significantly less than you can go on a 250-passenger U.S.-flag cruise.

The CHAIRMAN. The difference in cost is because?

Mr. WALKER. The difference in cost is labor cost in the U.S. All of our cruise ships, U.S.-flag cruise ship operators have to pay U.S. taxes on all of their operations, whether they be in the U.S. or outside the U.S.

As I said, I am happy to—I mean, I am not happy to say it, but I fully admit that the vessel cost in the U.S. is higher than it is on the international market due to the massive amount of Government subsidies that the foreign shipyards receive from their home Governments. All of those things enter into it.

The CHAIRMAN. Ms. Sanchez, how many American citizens are employed just in Miami by the foreign cruise lines?

Ms. SANCHEZ. Mr. Chairman, I would defer that question to Ms. Colenda.

The CHAIRMAN. Ms. Colenda.

Ms. COLEND. In Miami, it is about 50,000 to 60,000 U.S. citizens are employed.

The CHAIRMAN. Fifty thousand to sixty thousand U.S. citizens employed, and, say, San Diego how many are employed by foreign cruise ships?

Ms. COLEND. I am not sure of that number, Senator McCain.

The CHAIRMAN. Maybe a couple of hundred?

Ms. COLEND. I would think in the California ports, where we have significant vessel operations—for example, two of our companies are headquartered, one of them is in Los Angeles, and we have some of the companies headquartered in California, that the headquarters alone would, in the case of—Princess Cruise Lines employs probably several thousand people.

Ms. SANCHEZ. Mr. Chairman, if I may, I would like to add to that, because I think it is important to note there are Americans employed on international cruise ships on board the ships, and in fact we looked at this, and looked at the 30 cruise ships that typically serve the Alaska market, and when we looked at the number of Americans that are employed, we discovered there are over 2,000 Americans employed on those ships, which is much greater than the amount of Americans employed on U.S.-flag cruise ships, whether it is the Hawaii ocean liner, the INDEPENDENCE, or even the smaller vessels that Mr. Welch has referred to.

The CHAIRMAN. Mr. Welch, you are eager to respond. I can tell because you are sitting up straight there.

[Laughter.]

Mr. WELCH. Well, thank you, Senator. The only thing that concerns me is the tendency that sometimes we feel like that we, our industry, get kicked because of our high cost structure, but we do not have a high cost structure, we have an American cost structure. We pay the same types of wages as shoreside folks.

We are not out of line with the American economy. We are very efficient within the American economy, but it is tough for us to take somebody that implies you must be doing something wrong because you cost more than a foreign-flag ship that pays most of their people far below the U.S. minimum wage, that does not have to pay U.S. taxes to any meaningful amount, and that is able to have a capital cost structure far better, more favorable than we are.

We are not knocking the foreign-flag companies for being able to do that. They are entitled to do that. But we do have a problem when somebody kind of looks at us and says, your cost structure is out of line compared to them. It is not a fair comparison, and allowing them to compete with us—and it is not just the cost structure.

They are not subject to the Americans With Disabilities Act. We are. They are not subject to the Transportation Safety Board. We are. They are not subject to a number of economic laws that your bill does not deal with. We are. It is just tough for us to compete head-to-head in that environment.

The Chairman: Mr. Wallack, without this legislation there is at least one venture that claims it will enter the U.S. cruise industry

by building cruise vessels without reflagging. Do you believe that is a realistic strategy?

Mr. WALLACK. I think if we look at the history of the cruise industry—I have been involved in it since the early eighties—the ability of a line to enter service by building a new ship and taking all of the expense up-front without any existing organization has been marginal. In fact, most of them have either failed or become acquired by larger lines who have a different set of economics and infrastructure, et cetera, to make it profitable.

I think off the top of my head of Seaborne, a very good company and the excellent new ships they built. But, until a large part of it was acquired by Carnival Cruise Lines, it was floundering. This is not an exception to the rule. It has been the rule so far. Our business plan just calls for the tried-and-true, “do not reinvent the wheel” way of doing business, the same way Carnival started, the same way many other cruise lines started, and we think it is practical, especially considering that building ships in the United States—building ships takes time. Building ships in the United States is going to take more time.

We feel confident that it can be done, but we should be using that time productively to build a business to acquaint Americans with the kind of itineraries we can operate, to form our allegiances and make our product known to the travel agency community, and in training workers who come on board these ships, who have had no opportunity to do so, even though they have been attempting to work in the maritime sector.

So we think there is a logical bridge strategy. Can they be successful? How deep are your pockets?

I mean, even large ships like the very fine cruise line, Crystal Cruise Lines, required the very deep pockets of a company called NYK, one of the largest maritime companies in the world, to get its beginnings. That is a tremendous commitment from a very, very big company.

I do not see in this particular plan that you referred to, Senator McCain, that kind of deep pockets, so I would be concerned about the business approach, but more power to them. If he wants to do it and can do it, I applaud the effort.

I would make—if I may, I would just like to comment on the economic issue. Although I am 100-percent in agreement that we should have a level playing field wherever possible, in a coalition we sometimes take a bump or two in order to make things happen. I heard this referred to as “pie-in-the-sky” and “it is never going to happen,” so if we do not take a few little bumps, if we do not take a few little hits, if you will, real things will not happen.

I think this is about real things, and in the economics of the cruise ship business, size has more to do with the cost of the ticket than what you pay in wages. Wages are a significant contribution, but we feel that with the wage scales in the American maritime industry today, that we could live with that, but size is important, and the structure of a small company, if you look at small companies, their ticket prices are all very high.

All of the successful small companies under the foreign-flag are companies like Seaborne and Silver Seas, et cetera. Their ticket prices are very similar to the ticket prices offered by U.S. flag lines.

But big ships have different economics, and that is why our intention is to build those ships. You only need one driver for 2,000 passengers. That is a big difference.

The CHAIRMAN. Mr. O'Toole, does it intrigue you that it is now more expensive, as far as labor and other costs are concerned, for foreign shipbuilders than it is in the United States of America, and yet still, we have been unable to get that business started by any major shipbuilder in America. They are very good at building Navy ships. They make the finest warships in the world, obviously, and unique warships.

We just had the Newport News experience. We have had other experience, where supposedly in Philadelphia they have been sending workers over to Korea to be trained and come back, and yet still we do not have a viable industry.

The argument used to be, well, it costs so much more in the United States to build a ship than it does in Italy, or the Netherlands, or wherever else. Now their costs are higher, yet they are still building the cruise ships, and we have not been able to do that.

Given your more than 30 years of experience in this business, what do you think about that?

Mr. O'TOOLE. Well, actually, we had a good discussion on that, and it was pointed out our shipyards are specialists. Newport News, aircraft carriers, Bath, cruisers, destroyers down in the Gulf States. Because of that, they are specialists in that, and that makes them good at it.

The CHAIRMAN. Also, could part of it be that they are not too concerned about cost overruns?

[Laughter.]

Mr. O'TOOLE. Well, I think they have a guaranteed profit margin built in. If they are going to go out and build a cruise vessel, now they are at a risk as to whether or not they can succeed. I think Mr. Wallack, as he pointed out, the time it takes to build cruise vessels, if you have not done it before, varies with your experience, but I think for us, if we are going to do it, now is the time to do it. Our opportunity is now, and I think that this bill, S. 1510, provides for that, and I think it gives an opportunity for the shipyards to have time to develop an industry in building cruise vessels, and I would hope they would join and support this legislation.

The CHAIRMAN. Any final comments, Mr. Welch, beginning with you, or do you want me to end with you?

[Laughter.]

Mr. WELCH. Your choice, Mr. Chairman.

The CHAIRMAN. Please go ahead, Mr. Welch.

Mr. WELCH. Mr. Chairman, my message is that in your efforts to construct a bill aimed at large cruise vessels, and of course we support the goal of getting more U.S.-flag large cruise vessels, please craft that bill in a way so that it deals only with large cruise vessels, and does not have a negative effect on the existing, vibrant U.S. flag small cruise vessels. We think there possibly is a way of doing that, but we feel like the way the bill is written now, it has too many questions.

The CHAIRMAN. Ms. Sanchez.

Ms. SANCHEZ. Thank you, Mr. Chairman. In closing, I wanted to just remind the Committee that the waiver for the international cruise lines under S. 1510 is very limited. We have come a long way from prior legislation. We are talking here about only allowing 200 days per international vessel until the year 2006.

Now, there have been suggestions that we submit the international cruise lines to a fair playing standard with the U.S.-flag industry. While we agree on environmental health and safety, because they are already doing that, they are within the reach of the U.S. Government already as we have seen lately, we do not think that requiring additional standards is going to help.

That, in fact, what it would be, it would be a poison pill in the bill, and that the international vessels will not come in, and we do not want to create the result that Senator Gorton talked about when he opened earlier in this hearing, when he said, if it is a good political solution, but it will not generate the business, so that I just wanted to expand about what our rationale is behind that.

So our interest is to fill the void with the large ocean liners. Our language for the smaller boats we think is tight. I am not comfortable that if we increase the tonnage limit to 30 to 50,000 gross registered tons, that I could get Mr. Welch's support for this bill, regrettably.

Thank you.

The CHAIRMAN. Thank you. Mr. Walker.

Mr. WALKER. Mr. Chairman, I cannot let that pass. I need to know if I understand what Ms. Sanchez just said. If she just said that if foreign-flag operators have to operate like U.S.-flag operators have to operate, they would have no interest in our market, if that is true, that seems to me to be the real reason why we do not have a U.S.-flag fleet now.

If even the foreign flags do not want to operate here under our current structure, maybe we should look, and we want to expand the U.S. flag cruise ship industry, but maybe we should look at ways to make it easier to operate here in the U.S. Why should our own companies—

The CHAIRMAN. How do we know, until we give them a chance?

Mr. WALKER. That just seems to us to be an alternative way. We want to work with you to expand the industry. It is good for everybody. Nobody doubts that. But we just want to make sure that we do it in a way that does not stop the momentum that the smaller commercial yards have begun to build in building the smaller and medium-sized cruise ships. They need those contracts very badly.

The downturn in the oil industry is—lay-offs are happening left and right on the Gulf Coast, and we are not sure a lot of these shipyards will be around in 6 years to take advantage of this unless something is done.

The CHAIRMAN. Mr. O'Toole.

Mr. O'TOOLE. To reiterate my earlier testimony that my testimony today in no way deters from the support that both the MEBA, MMP, and SUP have to protect the Jones Act. These are two separate issues. I have heard the analogy about the camel's nose under the tent with regards to that, and I would like to say that I think that maybe—I am going to use the analogy of the ostrich head in the sand with regards to the future of American pas-

senger ships. I think that too often people are waiting for something to happen. I think now is the time for it to happen. I think the bill, S. 1510, is the vehicle on which we could develop a domestic cruise industry, and quoting George Allen, I think the future is now.

Thank you.

The CHAIRMAN. You are showing your age again, Mr. O'Toole.

[Laughter.]

The CHAIRMAN. Mr. Wallack.

Mr. WALLACK. Thank you, Mr. Chairman. I wanted to use a different camel analogy, because I have heard a lot about the camel's nose under the tent. I want to talk about S. 1510 perhaps as a coalition getting together to build a horse and we came out with a camel that has got a few bumps, but it is great for transportation, and it is particularly good to get us over rough ground, and to last a long time until the job gets done. That is what camels do.

I think we have built one, and I think we can make something happen here, and we can employ Americans on American flag cruise ships, and we can expand the kind of itineraries we can offer Americans, and do all of the things that you intended, Mr. Chairman, with this bill.

I think it is realistic, and not a "pie-in-the-sky." It is certainly a beginning, and you have our undying pledge that we are going to do everything possible to make that happen.

The CHAIRMAN. Thank you, sir. Ms. Colenda.

Ms. COLEND. Thank you, Chairman McCain.

One of the things I would like to point out is that our industry believes—we last year created jobs for 176,000 U.S. citizens. We brought \$11.6 billion to the U.S. economy, and we think that the objectives that you are trying to achieve can be achieved with expansion of our industry.

We have brought on new itineraries. We have visited new U.S. ports. We have added Galveston and Houston; we have added the port of Seattle; we have expanded operations in Boston; we have expanded tour operations in New Orleans; we have expanded our operations in San Diego; we are calling on San Francisco, and 2 years ago our vessels were not doing that.

So there are broad opportunities for the industry, but our primary market still has been outside. It has been primarily in the Caribbean area. Worldwide, we had 95 vessels call on over 200 ports last year, and so we are a worldwide market, and I think we are a very competitive and responsible industry, and we welcome the opportunity to work with you, and thank you for asking us to come today.

The CHAIRMAN. Thank you. The aspect of it that appeals to my constituents is the fact that, especially out of Miami now, but hopefully other places if we pass this legislation, the incredible variety of enjoyment they can get out of a cruise, a weekend cruise, singles cruise, old geezers cruise—I mean, the weekend, the month-long, we can—the incredible selection now that Americans and others who may come to this country have is really quite remarkable.

That is what has impressed me more about the growth of your industry, and the growth has been dynamic, and if it is true in Miami and other places where the Jones Act really does not affect

them, and the Passenger Cruise Vessel Act does not affect them, then I think it opens up incredible opportunities for American citizens to have an experience that unfortunately some citizens who live in different parts of the country do not have. It is remarkable.

In just 5 or 10 years, the incredible expansion, the different kinds of experiences that American citizens can have, at frankly prices that are not as high as—once upon a time, cruising was for the very rich, and now this industry has been able to allow most levels of income, certainly not all, but at least down to middle income Americans, an opportunity to have some very unique experiences, and that is I think what your industry has to be congratulated for.

But I want to caution you one more time. I am appalled when I see some of these environmental violations, and some of the allegations that have taken place. It has got to stop. It has to stop, otherwise the Congress and the Government very justifiably are going to have to take some action, and it would inhibit our ability to get legislation like this through the Congress of the United States, but I do congratulate you on enormous progress, besides all the economic aspects of the cruise industry in America, the enjoyment that so many Americans have been able to have as a result of this dynamically growing industry.

I want to thank you all for being here. I do want to reiterate the words of my esteemed dear friend from Texas, Senator Hutchison, who said we would like to try to work together, and we would like to get it to a point where perhaps we could get this legislation through the Congress without having some kind of bitter floor fight, which obviously is something that none of us look forward to.

I thank you for being here. This hearing is adjourned.

[Whereupon, at 11:35 a.m., the Committee adjourned.]

A P P E N D I X

PREPARED STATEMENT OF HON. DIANNE FEINSTEIN, U.S. SENATOR FROM CALIFORNIA

Mr. Chairman:

I would like to begin by thanking you for the opportunity to testify today in strong support of S. 1510, the United States Cruise Ship Tourism Development Act of 1999, and to thank you for your leadership on this issue.

California's ports and many cruise related businesses have been working on modifying the Passenger Services Act since the 1995 White House Conference on Travel and Tourism when California first brought this issue to the convention. That Conference identified the PSA as a barrier to developing new domestic tourism products and also urged incentives for development of a U.S.-flag cruise ship industry. This legislation does that.

I have worked with these groups and with you to form a compromise that would bring benefits to all U.S. ports, cruise-related businesses, and American maritime unions. This process has also received the strong support of the travel agents and tourism industry associations throughout California and the United States.

When I met last year with the Cruising America Coalition and the Maritime Unions, I urged them to work closely together without friction and bring me a compromise that would be meaningful to both sides. I felt the need to jumpstart an American cruise ship industry that would bring benefits to U.S. seafaring labor, the ports and the travel industry. Even after last year's reverses I did not give up hope that there was something Congress can do to help bring back a fleet of U.S.-flag ocean liners.

I am especially pleased with how hard both sides have worked on drafting this bill, and want to thank them for their efforts. I am especially pleased with the bill that resulted from this balanced approach.

This legislation is a compromise, a product of hard work from both sides. I am very happy that it has broad support of major maritime unions; notably, the Sailors' Union of the Pacific, which is headquartered in San Francisco; the Masters, Mates and Pilots; the Marine Engineers Beneficial Association; and the Marine Firemen's Union. It is also supported strongly by ports in California in cooperation with most of the ports in the United States, almost every nationwide tourism group of note, hotels, bus operators, and travel agents who together are members of the Cruising America Coalition.

Let me now take a moment to explain why this legislation could help California's ports. All but one of the ocean going cruise ships serving the United States is registered under a flag other than the flag of the United States.

Consequently, when these internationally flagged ships visit the United States, which they can do legally and do very often, in order to carry passengers between U.S. ports, these ships must also touch a foreign port in order to drop off passengers without facing legal consequences. As a result, U.S. ports that are close to foreign destinations benefit by their location; ports such as Miami close to the Bahamas and the Caribbean and San Diego near Mexico.

California has a long and historic border with the sea, but California's ports are not close to many foreign destinations. In Northern California, there are no islands off the Coast, and San Francisco, Monterey, and Eureka must work especially hard just to get some port visits. The community of Eureka is a rural community trying to transition away from the logging industry, and they see this as one path open to them. They are strongly behind this measure.

In Southern California, there is a similar example in Monterrey. The city is an active supporter of the Coalition, as is the Aquarium there and Pebble Beach. Because they are small and distant from Mexico, they must work especially hard to get any cruise visits, because cruise visits mean more revenues. Throughout California food and service providers tell me that they, too, can feel the positive effect of increases in the cruise ship business. Some of the cruise ships who visit Northern California ports will load up an entire year's worth of wine from California's vineyards at one time.

As an example of what this bill could mean to California, I have heard from the hotel operators and restaurateurs, especially from San Francisco, who tell me that whenever a cruise ship calls on their port, they add more workers. This equates to more revenue for the businessmen and women, the City and the State.

The Cruising America Coalition estimates this legislation could increase the number of port calls in California—this includes San Diego, L.A., Eureka, Monterey and Eureka—to 485 annually from both U.S.-flag and international flag cruise lines.

The legislation would result in entry of two U.S.-flag cruise ships operating off the California Coast adding 125 calls to California. Additionally, 360 new cruise calls from international cruise lines could result under the limited waiver in the bill.

The combined economic impact to tourism and maritime industries from opening up the California Coastal cruise market is projected to be \$168 million to the State.

Let me explain briefly how this bill will work in California. This bill will allow international-flag cruise ships to call on California ports, and pick up and drop off passengers, without having to visit a foreign port. Remember, every one of these international-flag ships can legally enter and depart any U.S. port. What this legislation intends is to do is to use these existing international-flag assets to rejuvenate a moribund industry. It intends to allow these ships, on a temporary and limited basis, to carry passengers in the domestic trade without touching a foreign port. Thus bringing more business to California's port areas and in the process proving to the American financial institutes that there is potential in this trade.

Even though San Diego is getting an increased number of cruise ships, the San Diego port personnel still sit there and watch many more bypass them and go to Ensenada just so that they will be "legal." A cruise ship that is to sail from San Diego to Hawaii, can load all its baggage and supplies in San Diego, but the passengers must be bussed down to Ensenada and be boarded there. Some ships do not even make the stop in San Diego, but go right on past. I believe this bill will help ease that problem, and also provide incentives for international-flag ships to reflag U.S.

This bill allows for American businessmen and women to much more easily reflag foreign-built cruise ships into the U.S. domestic industry with the commitment to build replacement cruise ships in the U.S. Until now, each time an owner wanted to reflag a cruise ship it required a special piece of legislation for that cruise ship to be added to the U.S. fleet. This legislation would allow reflagging of any ship that the owner would commit to replace in the future with a U.S.-built ship. These first cruise ships, even though built in foreign yards, would be manned by American seamen, officers and support crew, and they will help to rebuild the human infrastructure needed to revitalize the American cruise ship industry.

This bill is not perfect; no bill is. The Cruising America Coalition believes there are too many restrictions on the use of existing assets, while the maritime unions believe there are too many concessions to these foreign assets. Consequently, it is probably a good bill, but we will work with all parties to continue to refine it as we move forward in the process.

Thank you for your attention and your leadership and support in this effort.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO
AL WALLACK, PRESIDENT, D'ARCINOFF GROUP AND VOYAGER HOLDINGS, INC.

Question 1. As a company seeking to operate American cruise vessels, are there aspects of S. 1510 that you believe need to be strengthened or changed?

Answer. We are confident that if properly implemented, the provisions of S. 1510 will allow for the operation of United States-flag cruise vessels in the domestic trades. We believe it is extremely important that the Committee on Commerce, Science and Transportation and the Congress as a whole make clear its intention that the implementation of S. 1510 not discourage or penalize United States-flag cruise vessel operations. The so-called "bumping" provisions contained in this legislation must ensure that foreign flag cruise vessels cannot operate on itineraries that are comparable in scope, nature, and purpose to those offered by American flag cruise vessels. Equally important, United States laws should be applied equally to American flag and foreign flag cruise vessels. It is, in our opinion, critical that all cruise vessels in the domestic trade operate under the same rules, regulations, and tax obligations.

Question 2. It is argued that S. 1510 is contrary to the 1997 Cruise Ship Pilot Project and unfair to the company operating cruise ships in Hawaii. Do you agree?

Answer. No, we do not agree. On the contrary, we believe the approach taken by S. 1510 regarding the operation of cruise vessels under the United States-flag and

the construction of cruise vessels in an American shipyard properly reflect the realities of the cruise industry outside the intra- Hawaiian Island trade.

The so-called "pilot project" legislation enacted in 1997 enabled the operator in Hawaii to proceed knowing he has the exclusive right to operate cruise vessels in this market. Obviously, the approach taken in that legislation is not available to any other American operator or to any other domestic cruise market. It is, however, the approach advocated by the Hawaii operator and the approach that has proven effective as that company proceeds with its plan to build cruise vessels in the United States.

In contrast, S. 1510 takes another approach which we believe can be effective and which we strongly support. As we testified, S. 1510 would allow us to implement our strategy to acquire existing cruise vessels for operation under the United States-flag in the domestic cruise trades, while we negotiate for the construction of replacement vessels in an American shipyard.

This approach is, in our opinion, the most realistic to help generate United States-flag cruise vessel operations. It acknowledges the fact that the existing operator in Hawaii and operators seeking to enter new coastwise itineraries, have different considerations that must be reflected in legislation. For example, it was appropriate to require the operator in Hawaii to enter into a ship construction contract as a precondition to his operation of a foreign built cruise ship in that trade because:

(1) The Hawaii market has been developed for approximately twenty years and the operator in this market, unlike those of us who are seeking to operate cruise vessels in other domestic markets, had firsthand knowledge of the size and type of vessel and the amenities suitable for this particular market and could thereby enter into a contract with the benefit of firsthand, direct experience in the trade;

(2) The operator in Hawaii was able to maintain his market presence while he engaged in negotiations with an American shipyard; and (3) The operator in Hawaii has been given the exclusive right to operate cruise vessels in this market, a protection not available to us or to any other operator in any other domestic cruise market. These factors are not applicable to other domestic markets. It is therefore appropriate, right, and fair to give operators who are seeking to develop new domestic itineraries an opportunity to operate cruise vessels before entering into a ship construction contract. To do otherwise would be unfair to Voyager and other companies seeking to serve American ports outside Hawaii.

Question 3. Since foreign flag cruise vessels would be eligible to operate in the domestic cruise trades under this legislation, why would someone choose to operate a U.S.-flag cruise ship?

Answer. We believe there are a number of reasons why it is advantageous to operate United States-flag cruise vessels:

(1) United States-flag cruise vessels, and not foreign flag cruise vessels, can offer regular service between American ports during the first year after the enactment of S. 1510;

(2) United States-flag cruise vessels can bump all comparable foreign flag cruise vessels from a comparable itinerary;

(3) Only United States-flag cruise vessels can operate in the coastwise trade after December 31, 2006, and serve the domestic cruise markets that have been developed under this legislation; and

(4) Only United States-flag cruise vessels can offer passengers the opportunity to deduct up to \$2,000 of the cost of attending a convention, business meeting, or seminar on a vessel traveling between American ports.

Question 4. Without S. 1510, there is at least one venture that claims it will enter the U.S. cruise industry by building cruise vessels without reflagging. Do you believe such a strategy is realistic?

Answer. Based on years of experience in the cruise industry it is readily apparent that such an approach has not been utilized by successful cruise companies. We believe that reflagging, and the authority to operate reflagged vessels in the domestic trade, is critical as construction proceeds on larger, more modern cruise vessels. This has been the approach that led to the creation of Carnival Cruise Line and the approach being used today by American Hawaiian Cruises. Having the ability to operate a reflagged cruise vessel as a bridge to the delivery of a newly-built cruise vessel is in our opinion, the most realistic and proven strategy.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN
TO ALLEN WALKER, PRESIDENT SHIPBUILDERS COUNCIL OF AMERICA

Question 1. Not one large cruise vessel has been built in a U.S. shipyard in more than 40 years. What leads you to believe, as you state in your testimony, that current "serious discussions" will lead to anything more than ensuring that none will be built for the next 40 years?

Answer. American Classic Voyages has signed a contract to build two large cruise ships in a U.S. shipyard with an option for a third vessel. In addition, numerous smaller cruise ships have been built in medium-sized U.S. shipyards in recent years. In fact, two smaller cruise ships are under construction right now at Atlantic Marine in Jacksonville, Florida and Nichols Brothers Boat Builders in Freeland, Washington is in the process of converting a casino vessel into an overnight cruise vessel. Operators are also in discussions with U.S. shipyards to build at least three other 275 passenger overnight cruise ships. The industry believes strongly that the market in the U.S. for small and medium-sized cruise ships will continue to grow over the next few years. Once the door is open for large cruise ships, we believe that the small and mid-sized market will be the next target for foreign-built, subsidized and often less safe cruise ships.

Question 2. In an attempt to change the status quo and jump start U.S. shipbuilding, S. 1510 provides limited opportunity of 200 days over five years for foreign cruise vessels to test the domestic market to determine if the high cost of building is warranted. S. 1510 offers a way to get from no cruise ships to some ships, from no U.S.-built cruise vessels to some U.S.-built cruise vessels. Short of government subsidies or tax breaks, can you recommend a realistic alternative to S. 1510, which would not intrude on our other cabotage laws and still offer a realistic expectation for U.S.-built large cruise vessels?

Answer. We understand and agree with the goals in S. 1510; however, we differ with the methods in S. 1510 to reach the goal of building a vibrant coastwise cruising industry in the U.S. SCA is anxious and willing to work with you, members of the Commerce Committee and others to devise legislation that offers a realistic expectation of new cruise ship itineraries in the coastwise trades and protects our domestic shipbuilding industrial base. We believe that the premise of any legislative initiative should include provisions that require vessels operating in the U.S. trades to be U.S.-flag, that the proposal should include enforceable requirements that all necessary conversion work and subsequent repair work on foreign-built vessels be performed in U.S. shipyards, and that an enforceable provision be included that will require foreign-built tonnage to be replaced by U.S.-built tonnage in a timely manner or that coastwise trading privileges be revoked. SCA believes that in exchange for coastwise operating privileges, these companies must make these minimum commitments.

Question 3. You argue in your testimony that accelerated depreciation of vessels would enhance U.S. shipbuilding. If I were to agree that an accelerated depreciation proposal would be beneficial to facilitate financing, how would it create economic opportunities today for American ports and for those who are ready to operate cruise vessels in the domestic trades when it takes 4 years or more to construct large cruise vessels?

Answer. One of the major obstacles to cruise ship construction in the U.S. is the lack of financing for untested operators and markets. We believe that accelerated depreciation would ease this situation and lead to more construction opportunities in U.S. shipyards. Certainly, ports and operators would not enjoy the benefits of accelerated depreciation immediately. In the interim, SCA may support waivers for foreign-built cruise ships for operators willing to make a commitment to the U.S. marketplace if it is apparent that such support would result in U.S. built cruise vessels. Evidence of this commitment would include a willingness to abide by all U.S. laws, including payment of U.S. taxes, willingness to begin discussions immediately with U.S. shipyards to replace foreign-built tonnage with U.S.-built tonnage and reasonable assurances that binding and enforceable contracts for replacement vessels would be signed in a timely manner.

Question 4. When you argue against allowing foreign-built vessels into the domestic trade, do you include the foreign built vessel that will soon be operating in Hawaii and did your organization oppose the legislation that granted American Hawaii Cruises permission to use a foreign-built cruise ship in Hawaii?

Answer. SCA was not asked to and we did not take a position on the legislation, which allowed American Hawaii Cruises to operate a foreign-built cruise ship in Hawaii. However, had we been asked, we would have supported this legislation and would support similar proposals in the future. We believe that the American Hawaii Cruise is the template and sets the bar for allowing foreign-built vessels into the U.S. domestic trade. American Hawaii Cruises agreed to sign a contract to build two large cruise ships in a U.S. shipyard and to operate the foreign-built cruise ship under the U.S.-flag before receiving a waiver to operate one foreign-built vessel in Hawaii. Furthermore, it is our understanding that the foreign-built cruise ship will be removed from U.S. service in a timely manner after delivery of the second U.S.-built cruise ship. We believe that this type of proposal could be used as a model for other efforts to grow the U.S. cruise ship market.

Question 5. You argue that small, existing American cruise vessels will likely be hurt by larger foreign cruise vessels because larger vessels can charge less for a cruise in the same market. As you know, it is the intent of S. 1510 that American cruise vessels not be adversely affected by this legislation. How would you suggest S. 1510 address this problem.

Answer. One of the major reasons why we believe that small cruise ship operators would be damaged by provisions in S. 1510 is that the bill would allow certain foreign-flag cruise vessels of 9,000 gross tons or larger to operate in the U.S. marketplace. These vessels would be able to offer luxury accommodations at prices similar to or below smaller U.S.-flag cruise ships in the same markets. They can offer cruises at lower prices because of unfair tax and labor advantages that foreign-flag vessels enjoy. Foreign-flag cruise ships operating in the U.S. market would be tax exempt on all voyages except those voyages made between U.S. ports, while U.S.-flag vessels pay U.S. corporate income taxes on all voyages whether domestic or foreign. In addition, in markets where small U.S.-flag vessels have been operating, the infusion of large, foreign-flag cruise ships that offer substantially lower rates due to their tax and labor advantages would most assuredly hurt existing or new small U.S. cruise ship operators. To alleviate this situation, we suggest that the tonnage level of cruise ships covered under S. 1510 be raised to include only vessels greater than 30,000 gross tons and that all foreign-built vessels receiving waivers to operate in the U.S. market be required to operate under the U.S.-flag.

Question 6. There is an impression in some quarters that U.S. repair yards charge U.S.-flag vessels more than foreign-flag operators for comparable work, on the theory that if the U.S.-flag repairs were done in a foreign yard the operator would have to pay Ad Valorem duty. To your knowledge is this the case?

Answer. I have no knowledge of U.S. ship repairers charging U.S.-flag operators more than foreign-flag operators for comparable work. There is ample ship repair competition in all areas of the U.S. market. Multiple shipyards compete for all ship repair work, both U.S.- and foreign-flag. Even if a U.S. shipyard decided on this strategy, they would most assuredly be undercut by another U.S. ship repair yard. In addition, there is anecdotal evidence that foreign government subsidies for ship repair work is on the rise, which has reduced the amount of foreign-flag repair work in U.S. shipyards leading to more competition for U.S.-flag repairs.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO
LAWRENCE H. O'TOOLE, PRESIDENT, NATIONAL MARINE ENGINEERS' BENEFICIAL
ASSOCIATION

Question 1. Why do you support S. 1510?

Answer. The American working men and women of the MEBA strongly support S. 1510 because it represents the only realistic, workable approach to give American companies and American workers a fighting chance to make it in the U.S. domestic cruise industry. S. 1510 will provide critically important U.S.-citizen maritime jobs, and it will be a vital first step toward providing a real American presence in the large vessel cruise market. Today's market for vacation and business-related cruises, on large, modern cruise vessels, is served almost entirely by foreign-flag vessel operations. If this situation is ever to change, and we believe it can, it will only be through the innovative approach envisioned in S. 1510. I believe that S. 1510 is the only feasible way for potential U.S.-flag cruise operators to test the market before making the huge capital investment in vessels for the U.S.-flag trade. Currently, American citizens are by far the largest group of cruise vacation passengers in the world. U.S. companies operating U.S.-flag vessels ought to share in

this enormous and growing cruise market, a market that would deflate to virtually nothing were it not for the vacation dollars of American citizens.

Question 2a. Both proponents and opponents of S. 1510 agree that certain aspects of the legislation are unprecedented. They particularly point to the fact that it will permit, temporarily, foreign-flag vessels into America's domestic cruise trade for the first time. You, MEBA, and its members have always been strong supporters of the Jones Act and the Passenger Vessel Service Act. Why do you think this change is necessary?

Answer. This legislation calls for a temporary, limited waiver of the Passenger Vessel Services Act. This would create a short-term opportunity to use large, foreign-built and foreign-flag cruise vessels and foreign-built, U.S.-flag vessels to test the viability of new domestic cruise markets. There should be no mistaking the fact that such a waiver represents a marked departure for us. Maritime labor has long defended America's domestic shipping statutes, including the Passenger Vessel Services Act. But, it has become abundantly clear to us that if something is not done, if a new and different approach is not tried, the cruise market in America will continue to be dominated by foreign-flag vessel operators, and there will be no opportunities for American workers and American companies to make any inroads into this constantly growing industry. Further, our support for S. 1510 in no way conflicts with our continuing and wholehearted support for the Jones Act. MEBA always has been, and will continue to be, a strong defender of the Jones Act. The Jones Act will not be harmed as a result of this legislation. But, remember, S. 1510 is about passengers; it's not about cargo. We would agree wholeheartedly with the approach of Chairman McCain to keep these two areas entirely separate. I do not know how it could be made more clear. This legislation is not about the Jones Act; it's about building the foundation of a U.S.-flag, U.S.-built, U.S.-crewed presence in the United States cruise trade. It's a practical way to get from where we are today—only one large U.S.-flag cruise vessel—to where we ought to be in the future—a fleet of cruise vessels with the American flag flying with pride.

Question 2b. Do you believe this legislation (S. 1510) gives an American cruise vessel a realistic opportunity to compete against a foreign flag cruise vessel?

Answer. Yes, I do. I believe this legislation is designed to create a strong and expanding market whereby an American cruise passenger can travel on a U.S.-flag vessel from one U.S. port to another without first stopping at an intermediary foreign port either for pleasure or as part of a business convention. Only U.S.-flag cruise vessels can offer their passengers the advantage of the "convention tax deduction". And, only U.S.-flag cruise vessels will be allowed to operate between American ports without stopping in a foreign port after December 31, 2006.

Question 2c. Do you think that the protections built into this legislation concerning foreign vessel operations are adequate?

Answer. Yes, I do believe the protections are adequate because under S. 1510:

- Foreign-flag cruise vessels cannot operate on a route that is comparable to a route served by a U.S.-flag cruise vessel, and further, if a U.S.-flag cruise vessel wants to enter a market where a comparable foreign-flag vessel already has existing service, then the U.S.-flag cruise vessel can "bump" the foreign-flag vessel from that route;
- only a U.S.-flag cruise vessel can operate regular cruise service between two American ports during the first year after enactment of this legislation; foreign-flag cruise vessels must comply with all U.S. rules and regulations relating to health, safety, environmental protection and other operating standards as set out by the Secretary of Transportation;
- foreign-flag cruise vessels will be subject to U.S. corporate taxes on the income earned during the domestic portion of their operations; and
- only U.S.-flag cruise vessel passengers can deduct up to \$2,000 of the cost of attending a convention, business meeting, or seminar on a cruise vessel traveling between American ports—a potentially huge market not available to foreign-flag ships.

In short, U.S.-flag incentives are significant; foreign-flag vessels will have to meet Department of Transportation requirements; and the foreign-flag presence will be out on a date certain.

Question 3. A great deal of concern has been expressed that the legislation does not specifically state which U.S. laws would apply to foreign vessels. Do you think the process contained in S. 1510 is sufficient?

Answer. Yes, I do. I believe it is the clear intent of this legislation that U.S. laws apply equally to all vessels in our U.S. cruise trade. Any foreign-flag vessel brought into the domestic trades under this bill will have to comply with all U.S. rules and regulations relating to health, safety, environmental protection and other operating standards, as set forth by the Secretary of Transportation. And these foreign-flag vessels will be subject to U.S. corporate income tax on the income they earn during the domestic portion of their operations. I have full confidence in the process set forth in S. 1510, and I have full confidence that the Secretary of Transportation will ensure that the playing field is level and fair to U.S. entrants.

Question 4. Are you concerned about the impact of this legislation on other domestic shipping statutes and trades?

Answer. Absolutely not. The MEBA has always been, and will continue to be, strong defenders of the Jones Act, because it remains essential to the economic and national security of the United States. S. 1510 contains language specifically stating that the limited use of foreign-built cruise ships in the domestic trades shall not affect or modify the requirements applicable to the carriage of cargo under the Jones Act. Furthermore, the cruise industry and cargo industry are two totally different industries and two completely different markets. As I said in my answer to question 2a, S. 1510 will in no way affect the Jones Act. We have a strong domestic seagoing cargo industry in the United States, and we have a minuscule U.S.-flag cruise industry, except for relatively small commercial passenger vessels. I can assure you that we would never be part of any plan that would weaken the Jones Act. Far from weakening the Jones Act, I believe that in the long run, S. 1510 will actually strengthen it, because if we succeed, then we will prove that it is possible, that we can get the job done, and that there can be an American alternative in the cruise market.

Under the leadership of Chairman McCain, our maritime labor unions have sought compromise with other interests, and we are proud to have played a role in producing a proposal that gives our members and the American companies they work for a real shot at success.

October 5, 1999

The Honorable Daniel Inouye
United States Senate
Senate Commerce Committee
Washington, DC 20510

RE: S. 1510, Senate Commerce Hearing on October 6, 1999

Attention: Cameron Naron

Dear Senator Inouye:

On behalf of the thousands of workers employed by the shipbuilding industry, we urge you to oppose S. 1510, the United States Cruise Ship Tourism Development Act, which would gut the Passenger Vessel Services Act (PSA) by allowing foreign-built and owned cruise ships to operate in the U.S. domestic trade.

U.S. shipbuilders have recently reentered the commercial cruise ship construction market, after a 40-year absence. Ingalls Shipbuilding of Pascagoula, MS is constructing two large 1900-passenger oceangoing cruise ships, with options for more. The state-of-the-art passenger cruise ships will be built to meet U.S. safety and environmental standards, and this construction project will create thousands of highly skilled jobs in U.S. shipyards, in the supplier base, and on board the vessels once delivered.

S. 1510 would allow foreign built vessels to operate in the U.S. domestic trade for up to 200 days. After 200 days, or the year 2006, the foreign-built and owned cruise ship would be required to re-flag in the United States or lose its coastwise privileges. Although the bill states that a U.S.-built, U.S.-flag ship could bump a foreign ship from the trade, in practice a bumping provision would not be executable for a myriad of reasons. Additionally, amending the Passenger Vessel Services Act, as proposed by S. 1510, will jeopardize thousands of shipbuilding manufacturing jobs and the multi-billion dollar market potential for construction of cruise ships in the United States.

Accordingly, we ask you to oppose S. 1510.

Sincerely,

Ande M. Abbott,
Director of Legislation & Shipbuilding,
International Brotherhood of
Boilermakers, Iron Ship Builders,
Blacksmiths, Forgers & Helpers

Luckie McClintock,
Legislative Director,
United Association of Plumbers &
Pipefitters

Vincent A. Panvini,
Director of Governmental Affairs,
Sheet Metal Workers' International
Union

Rick Diegle,
Legislative Director,
International Brotherhood of Electrical
Workers

Alan Reuther,
Legislative Director,
International Union, United Automobile,
Aerospace,

Agricultural Implement Workers of
America - UAW

Richard P. Michalski,
Director of Legislation,
International Association of Machinists
and
Aerospace Workers

Michael E. Mathis,
Government Affairs,
International Brotherhood of Teamsters

Donald Kanlewski,
Legislative Director, Laborers
International Union

H. Page Groton,
Legislative Director,
Metal Trades Department, AFL-CIO

William J. Klinefelter,
Assistant to the President, Legislative
Political Director,
United Steelworkers of America

INTERNATIONAL BROTHERHOOD OF PAINTERS AND ALLIED TRADES

October 5, 1999

The Honorable Daniel K. Inouye
United States Senate
722 Hart Senate Office Building
Washington, DC 20510-1102

Dear Senator Inouye:

On behalf of the several thousand members of the International Brotherhood of Painters Allied Trades who are directly employed in the shipbuilding industry, we urge you to oppose S. 1510, the United States Cruise Ship Tourism Development Act. This bill would effectively gut the Passenger Vessel Services Act (PSA) by allowing foreign-built and owned cruise ships to operate in the U.S. domestic trade.

U.S. shipbuilders have reentered the commercial cruise ship construction market, after a 40-year absence. Ingalls Shipbuilding of Pascagoula, Mississippi is constructing two large 1900-passenger oceangoing cruise ships, with options for more. The state-of-the-art passenger cruise ships will be built to meet U.S. safety and environmental standards, and this construction project will create thousands of highly skilled jobs in U.S. shipyards, in the supplier base, and on board the vessels once delivered.

S. 1510 would allow foreign built vessels to operate in the U.S. domestic trade for up 200 days. After 200 days, or the year 2006, the foreign-built and owned cruise ship would be required to re-flag in the United States or lose its coastwise privileges. Although the bill states that a U.S.-built, U.S.-flag ship could bump foreign ship from the trade, in practice a bumping provision would not be executable for a variety of reasons.

Amending the Passenger Vessel Services Act, as proposed by S. 1510, will jeopardize thousands of shipbuilding manufacturing jobs and the multi-billion dollar market potential for construction of cruise ships in the United States.

Accordingly, we ask you to oppose S. 1510.

Sincerely yours,

MICHAEL E. MONROE
General President

AMERICAN SHIPBUILDING ASSOCIATION

October 1, 1999

The Honorable Daniel Inouye
United States Senate
722 Hart Senate Office Building
Washington, DC 20510-1102

Dear Senator Inouye:

On behalf of the American shipbuilding industry, the American Shipbuilding Association asks you to oppose S. 1510, the United States Cruise Ship Tourism Development Act. This legislation would amend the Passenger Vessel Services Act to the detriment of the shipbuilding industrial base of the United States.

S. 1510 would allow foreign-built and foreign-owned vessels to operate in the U.S. domestic trade for up to 200 days, or the year 2006, whichever ever comes first. Only then would those foreign-flag ships be required to re-flag in the United States, or lose their coastwise privileges. Even though the bill provides for a "bumping provision" whereby U.S.-built and U.S.-flagged ships would have a preference and could "bump" foreign-built and foreign-flagged ships from the trade, in practice, it is doubtful that any ship would be removed from the trade. Furthermore, the fact that a foreign-built ship is operating in the domestic trade would make it very difficult for an American company to secure financing to build a ship for a market that is already being served.

Understandably, some American ports would like to have more cruise ships calling at their docks—regardless of where they are built or registered. This increase in traffic would increase revenue for the ports, the local food service companies, and local tourism. While these jobs are important, they only touch the surface of a potentially tremendous economic boost that the U.S. economy would realize through the expansion of the high-tech ship engineering and manufacturing sector that should rightfully serve this market. Building an American cruise industry will create thousands of highly skilled engineering and manufacturing jobs in our shipyards and in the supplier base that is located in 17 states.

At a time when U.S. Navy shipbuilding is at a historic low, commercial shipbuilding contracts must be secured by U.S. shipbuilders if the defense industrial base is to be sustained. Oceangoing cruise ships comprise a large market potential for U.S. shipyards. This year, Ingalls Shipbuilding of Pascagoula, MS began construction of two state-of-the-art 1,900-passenger cruise ships, with options for more. Other U.S. companies also plan to place orders soon with U.S. shipyards for the construction of large oceangoing cruise ships. This market should be nurtured to provide maximum benefit to the U.S. economy, not jeopardized by legislation that would surrender it to foreign interests.

American ownership, construction, and operation of cruise ships for the U.S. domestic trade benefits all Americans. Accordingly, I ask you to oppose S. 1510 and declare your support for a true American cruise industry — one built by Americans for Americans.

Sincerely,

CYNTHIA L. BROWN
President

AMERICAN CLASSIC VOYAGES CO.

October 5, 1999

The Honorable John McCain
Chairman
Senate Commerce, Science, and Transportation Committee
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Thank you for inviting me to testify at the Senate Commerce Committee's hearing on S. 1510, the United States Cruise Ship Tourism Development Act of 1999. Unfortunately, I will be unable to do so.

As you may know, American Classic Voyages is currently in the midst of a major program to expand its U.S.-flag, U.S.-crewed, U.S.-built fleet of passenger ships. Indeed, this is an especially busy time for us. In May, our Delta Queen line acquired and is currently rebuilding the *Columbia Queen* to begin operations on the Colum-

bia River next year. It will be our fourth river cruise ship. In August, we began cutting steel to construct two new passenger ships that will sail along the east and west coasts beginning in 2001. In addition, we are well underway to constructing, at Ingalls Shipbuilding, the two largest cruise ships ever built in the United States. Design work is being finalized, key components are being ordered, and fabrication is set to begin next summer on these 1,900 passenger ships. We also have a contract to purchase an interim, foreign-built vessel—which we will redocument under U.S. flag—for operation in Hawaii beginning in the fourth quarter 2000. Finally, we will be unveiling a new “brand” for our large passenger ships in the next three weeks.

We very much support increasing cruising opportunities for Americans through the expansion of the U.S.-owned, U.S.-crewed, and U.S.-built passenger fleet. We commit to you, as we did to Mr. Rob Freeman, to work with you on legislative proposals that will promote and expedite the development of such a U.S.-flag cruise fleet. Unfortunately, we believe S. 1510, as currently drafted, does not do so. It would allow foreign-flag cruise ships to operate in our domestic trades, would adversely affect our planned operations, and we would have to oppose the bill.

We do, however, look forward to working with you and your staff to develop legislation that would further develop the U.S.-owned, U.S.-flag, U.S.-built cruise industry. We already have discussed with Mr. Freeman a meeting with our General Counsel for later in October to work on substantive proposals.

Best regards.

Sincerely,

PHILIP CALIAN
President and Chief Executive Officer

October 6th, 1999

The Honorable John McCain
and Members of the Committee

I am forwarding a statement by the National Association of Cruise-Oriented Agencies in support of S. 1510, the “United States Cruise Ship Tourism Development Act of 1999.”

NACOA is composed of more than 800 specialized travel agencies across the country. Together, the membership sells over half of all cruises in the United States. We are made up of retirees, minorities, stay-at-home moms and small business owners. We represent “bread and butter” America. The impact of the proposed legislation on our businesses, our port communities and for our clients can be very substantial and very positive.

We urge you to support S. 1510.

On behalf of NACOA, please contact me if I can provide further information or otherwise assist you on this matter.

Thank you.

Yours truly,

MARY S. BRENNAN, MCC
Chairperson, Legislative Committee

The National Association of Cruise-Oriented Agencies endorses the “United States Cruise Ship Tourism Development Act of 1999,” S. 1510 as intelligent, proactive and bipartisan legislation.

NACOA is composed of more than 800 specialized travel agencies across the country. Together, the membership sells over half of all cruises in the United States. We are made up of retirees, minorities, stay-at-home moms and small business owners. We represent “bread and butter” America. The impact of the proposed legislation on our businesses, our port communities and for our clients can be very substantial and very positive.

Mr. Chairman. Our cruise customers come from every State and Territory in the United States, and they are growing in number and influence rapidly. The fastest growing segment of the travel industry is cruising. The United States of America has thousands of miles of coastline. Over 80% of Americans live within 500 miles of coastal waters. Americans love to cruise. Yet, despite the natural opportunity that has existed since the advent of leisure cruise vacations in the 1960’s, there is still virtually no large, ocean-going U.S. cruise industry. We can book cruises on small coastal ships, but I cannot book passengers on any U.S. ocean-going cruise ship outside of Hawaii.

The Passenger Services Act of 1886 protected US ferryboats by prohibiting Canadian competition among US ports in the Great Lakes. The ferryboats have long since disappeared, but the law prohibiting foreign vessels from operating among US ports remains in effect. Today, the Act protects a small American fleet of mostly riverboats and small ships catering to a tiny segment of the travel market. There are no oceangoing, sizable U.S. cruise ships, except for one ship in Hawaii, with potentially two more new ships in that State after their operator received a 30-year monopoly.

In the 1960's, bright entrepreneurs turned the tragedy of a dying trans-Atlantic ocean liner industry into the rise of a creative new vacation product. The ships evolved from modes of transportation to a vacation destination. They invented a luxurious vacation at a price accessible not only to the wealthy but to the middle class. Today, cruise ship vacations allow the Baltimore City worker, the Hibbing schoolteacher, and the Kansas City postman to feel special and be pampered in Ritz like conditions. The foreign-flag cruise industry has opened up new vacation choices to a whole new segment of Americans that never traveled before.

We believe that S. 1510 represents a compelling compromise that should move this industry forward. It is bi-partisan, and includes port authorities, the travel industry, maritime labor and Americans across the country. This bill has achieved wide support from those who can so clearly see its possibilities.

Over four decades, innovative cruise products, skillful marketing and public recognition of great vacation values resulted in cruise sales growing faster than any other segment of travel, year after year. Because of PSA-imposed restrictions, cruise clients have to leave the US during their vacation. They cannot board at one US port and disembark at another, and the voyage must include a foreign port.

What is cruising and who does it? An exhilarating escape from everyday reality and stress, a cruise takes vacationers on a voyage of pampering, relaxation, sightseeing and soft adventure, with a bit of education tossed in. With the choices offered for dining, activities and entertainment, cruising allows people with differing tastes to still enjoy their vacations together. Within the anxiety-free environment of a cruise, my clients have had wonderful vacations and rediscovered many things about themselves and the world around them.

I speak to passengers every day on the telephone, and they want more cruise vacation choices. The profile of the typical cruiser has changed over these past four decades. Once, the passengers may have been quite well to do and advanced in years, and they had the means and time to afford longer cruises. Today, the passengers could be seventy-year-old pensioners, baby boomers paying their kids' college tuition and saving money for retirement; a thirty-five year old couple with two kids, or a newlywed couple. Annual incomes for these new passengers can start below \$30,000. In fact, families make up the swiftest growing demographic in cruising. And the middle class represents the greatest number of cruisers in America. With the huge, new, efficient fleet of ships in the cruise industry, a middle class family can experience luxury usually available only to the wealthy.

Cruising is also the safest form of travel in the industry, safer than driving, flying or traveling by train. Those who claim that cruising is not safe or desirable seem to find their voices only when this legislation comes up for a hearing. Yet, their concerns do not bear up under scrutiny. As I stated in past testimony, we do not put our clients on unsafe ships.

We need and want a US cruise industry that meets the requirements of our demographics. When I qualify a prospective cruise passenger, I learn what cruise products they can afford—mass market versus a high-end cruise. I also learn about their interests, whether they prefer soft adventure cruising close to glaciers or lots of entertainment on a big ship. Based on a detailed evaluation, I know whether to recommend Alaska Sightseeing versus Holland America. The products are totally different. The marketing brochures for Alaska Sightseeing or Clipper cruises highlight those differences by promoting the "small ship" adventure nature of their cruises. Both the U.S. smaller cruise lines and the large foreign cruise lines have unique niches. Alaska Sightseeing is indeed thriving in its business in an area where during any given season there as many as 30 foreign flag cruise vessels, because both products are distinct.

If S. 1510 passes, who wins? We all do! This bill opens up cruises to many more Americans who are limited by time, funds or mobility from enjoying these vacations now. It spreads the increasing wealth of cruising to more and more of our port communities, through seasonal home-porting and delivering more international and domestic visitors on day visits during voyages. Cruising stimulates tourism by creating a tide of interest wherever it goes, benefiting hotels, restaurants, and local tour operators and shop owners. Under this bill, U.S. shipyards must be awarded repair jobs while ships run domestic routes.

In a few years, assuming the expected demand for cruising in America booms and this bill passes, cruise lines will want to reflag vessels U.S. American shipyards will win new orders, American pilots would begin to reverse their shrinking numbers, and American sailors will find new jobs.

If the bill fails, who loses? We all do. There will still be only one or two ships plying between the Hawaiian Islands and the fleet of U.S. small boats and ships will not find their vessels filling from the growing ranks of cruisers in America and from abroad. Our dockworkers will lose out on ship calls, and our shipyards will lose out on repairs and new construction. America's 100,000 travel agents will lose out on sales, and there will be less cruising opportunity for the American public!

S. 1510 opens the door to test the large, ocean-going U.S. domestic cruise ship market with itinerary lengths and destinations that will bring in new customers and bring back repeat customers interested in new trips.

The current law is not working, Mr. Chairman, and I believe this compromise provides us with the opportunity to try something new. This industry needs that chance. Please pass S. 1510.

AMERICAN ASSOCIATION OF PORT AUTHORITIES

September 23, 1999

The Honorable John McCain
Chairman
Senate Committee on Commerce, Science, and Transportation
Washington, DC 20510-6125

Dear Mr. Chairman:

The U.S. public port community applauds your leadership in seeking a solution to stimulate the domestic cruise market in the United States. We support your introduction of S. 1510, the U.S. Cruise Ship Tourism Development Act, as an appropriate compromise approach.

As you are aware, AAPA represents virtually all major public port authorities and agencies in the United States. AAPA members are public entities mandated by law to serve public purposes, primarily the facilitation of waterborne commerce and the consequent generation of local and regional economic growth.

U.S. public ports have seen many business opportunities lost because of the restrictions contained in the 113-year old Passenger Services Act (PSA). Passenger cruise business results in tremendous economic benefits for ports and port cities. Unfortunately, many ports have not been able to reap those benefits because of the restrictions in the PSA.

Unfortunately, the current law has not resulted in any significant job protection for U.S. citizens. Rather, it has cost U.S. jobs that a revived U.S. coastwise cruise industry would create on the waterfront and in related tourism and supplier industries.

S. 1510 will permit testing of market conditions by foreign-flag ships and also provides significant incentives to jump start a U.S.-flag industry. AAPA believes that the bill will promote cruise opportunities and help stimulate the economic benefits that our members are charged to develop for their states and local areas. We look forward to working with you on this important legislation.

Sincerely,

KURT J. NAGLE
President

October 1, 1999

The Honorable John McCain
United States Senate
Washington, DC 20510

Dear Senator McCain:

On behalf of the American Hotel & Motel Association, I applaud your sponsorship of S. 1510, the U.S. Cruise Ship Tourism Development Act. This legislation is important to the tourism industry, particularly in coastal and Great Lakes states. The American Hotel & Motel Association (AH&MA), a federation of state and local lodging associations, represents this nation's hotel and motel industry. Over 47,000 lodging properties with more than 3.6 million rooms and over 1.1 million employees

exist in the United States. Our industry's annual sales exceed \$60 billion and our payroll exceeds \$17 million. AH&MA's membership ranges from the smallest independent properties to the largest convention hotels. S. 1510 will create new job opportunities for all sectors of the tourism industry, including the lodging industry, which would benefit from the rapid growth in cruise vacations. Cruise customers utilize lodging accommodations before and after their cruises. Their visits provide a great marketing opportunity for communities to encourage cruise visitors to return at a later date. If this bill becomes law, cruise passengers will have greater opportunities to spend more time in U.S. cities, thereby creating more jobs and revenue.

AH&MA strongly endorses S. 1510. Your leadership and support can make a difference in helping generate new business and job opportunities for the lodging industry.

We appreciate your consideration of our views.

Sincerely,

JOHN P. CONNORS

ASSOCIATION OF RETAIL TRAVEL AGENTS

5 October 1999

The Honorable John McCain
Chairman
U.S. Senate Committee on Commerce,
Science, and Transportation
Washington, DC 20510-6125

Dear Chairman McCain:

On behalf of almost five thousand small-business-sized retail travel agents who belong to our association, I want to thank you for introducing S. 1510 (the U.S. Cruise Ship Tourism Development Act) as a means of stimulating free and open competition in the domestic cruise market.

Our member agents are the "moms and pops" who own and operate America's hometown neighborhood travel agencies. These businesses would benefit greatly from the ability to sell more domestic cruises as part of a revitalized U.S.-flag industry. Beyond our members, the millions of consumers we serve would benefit from the greater levels of competition and new business opportunities that S. 1510 would foster.

We appreciate the fact, that you recognized the need for changes in the existing Passenger Services Act, which has unfortunately dampened domestic cruise competition and the creation of new jobs at U.S. ports which would result from U.S.-flag business.

You have our members' full support for this measure, and we look forward to working with you to insure its passage.

Respectfully yours,

John K. Hawks, APR

President

October 5, 1999

The Honorable John McCain
Chairman
Senate Commerce Committee
Washington, DC 20510

Dear Mr. Chairman:

The American Society of Travel Agents, ASTA, salutes your leadership role in addressing the inequities of coastwise cruising created by *Passenger Service Act of 1886 (PSA)*. Your bill, S. 1510, the United States Cruise Ship Tourism Development Act of 1999, provides a viable and reasonable approach of allowing international flag cruise lines to cruise between U.S. ports for a limited amount of time (200 days per ship until December 31, 2006). As a member of the Cruising America Coalition, ASTA is in full support of S. 1510 and looks forward to its passage.

The travel agency community sells approximately 95 percent of all cruises. Today, cruise vacations are among the best valued travel products on the market but diver-

sity in U.S. cruise itineraries are lacking. By allowing more cruise ships into the U.S. domestic trade, the public will have more choices. Since 1980, the cruise industry has had an average annual growth of eight percent and the two-day and five-day cruises have emerged as the hottest segment of the cruise vacation business with a 407.5 percent growth. By the year 2000, 6.5 million passengers per year will cruise. With the prospect of 47 new ocean liners being introduced into the marketplace by 2004, U.S. port cities in Texas, Washington, Massachusetts, South Carolina, Pennsylvania and Maryland have already developed infrastructures in anticipation of this growth market.

Legislatively, S. 1510 is a good example of righting a wrong. Changes to the PSA are long overdue. As each year goes by, consumers are denied the wonderful experience of exploring the U.S. coastlines through coastwise cruising opportunities. More importantly, without this legislation the U.S. economy stands to lose thousands of tourism dollars generated for ports-of-call by cruise ships.

Again, Mr. Chairman. ASTA applauds your efforts in this worthwhile cause.

Sincerely,

JOSEPH L. GALLOWAY
President & CEO

October 4, 1999

Senator John McCain, Chairman
U.S. Senate Committee on
Commerce, Science, and Transportation

Dear Senator McCain:

SeaAmerica Cruise Lines, Inc. ("SeaAmerica") thanks you for your invitation to comment on S. 1510 and appreciates your interest in promoting the U.S. cruise market bill. As we previously advised, SeaAmerica regrettably had prior commitments and will be unable to attend the hearing. Unfortunately, SeaAmerica feels that S. 1510 falls short of what is truly needed to benefit the U.S. cruise market.

SeaAmerica has been organized to own and operate a U.S.-flagged cruise line—operating U.S. port to U.S. port—to meet the demands of the business meeting and convention business, as well as the leisure cruise traveler. SeaAmerica will build three 41,000 ton passenger ships designed to provide a conference center hotel environment aboard luxury cruise ships. The ships will be completely built in America.

SeaAmerica is actively negotiating with several U.S. shipyards who have expressed an interest in building SeaAmerica's vessels. SeaAmerica has engaged one of the world's leading cruise ship design firms which is currently working on the design for SeaAmerica's vessels. SeaAmerica has also entered into strategic partnerships with a number of industry leaders and labor, all of whom support the SeaAmerica project.

SeaAmerica does support the provisions of S. 1510 that give U.S. built cruise ships a priority over foreign-flagged vessels in certain markets. But, SeaAmerica opposes any bill that would allow foreign-flagged operators to operate foreign-flagged vessels in the U.S. coastwise trade. Those provisions will only deter U.S. investment in the U.S. cruise market, and instead will encourage foreign-flagged operators to do the minimum required to operate within the U.S.

Instead of focusing on trying to get existing foreign-flagged, foreign-owned operators to enter the U.S. cruise market, SeaAmerica believes that the U.S.-flagged cruise industry needs incentives that will encourage U.S.-based owners and operators to enter the market and increase competition with the current foreign-flagged fleet. To do this, the U.S.-flagged cruise industry needs, among other things, tax incentives, favorable financing schemes, and itinerary priorities for U.S.-flagged passenger vessels.

While there are a number of issues that have been adequately addressed by other interested parties that are opposed to S. 1510, SeaAmerica would like to emphasize two points. First, in its current form, S. 1510 would allow large foreign-flagged operators to rotate two foreign flagged vessels under the provisions of S. 1510 such that the foreign-flagged operators could offer cruise passengers a year round U.S. itinerary, without the requirement for a U.S. crew. At the same time, S. 1510 provides little or no definition as to the nature of the plans a foreign-flagged operator would have to have for the construction of a cruise vessel in the U.S.

Second, the \$5.00 per passenger surcharge will do little or nothing to promote the U.S. cruise industry. Even if a foreign-flagged vessel was operating at full capacity, with 2,000 passengers per week, this would result in only \$520,000 per year being generated by each foreign-flagged vessel being operated under the Act. Compared to the extremely high capital costs of entering the cruise industry, and in particular the extremely high price for construction of new vessels (in the U.S. or elsewhere), any funds that could be generated by the \$5.00 per person fee would be insignificant to provide any meaningful economic incentives for an emerging U.S. cruise fleet.

Again, SeaAmerica is encouraged by your interest in promoting the American-flag cruise industry. SeaAmerica is eager to work with you to achieve the goals of the U.S.-flag cruise industry. Unfortunately, SeaAmerica feels that S. 1510 does not meet the goals of the U.S.-flag cruise industry and in many respects is in conflict with those goals. For these reasons, SeaAmerica opposes the passage of S. 1510.

Albert L. Frevola, Jr.

General Counsel, SeaAmerica

MARITIME CABOTAGE TASK FORCE

— Summary —

Cabotage In U.S. Domestic Passenger Transportation

- The cabotage principles embodied in the Passenger Vessel Services Act (PVSA) are not unique to the maritime industry—similar requirements exist in every other mode of domestic passenger transportation, including aviation. The prohibition on foreign registered ships transporting passengers in U.S. coastwise trade is no different than U.S. laws prohibiting foreign registered air carriers from engaging in domestic air transportation.

The PVSA Is Working Well

- Although over 3,600 U.S.-flag passenger vessels carry approximately 100 million passengers each year and the United States hosts the world's largest ocean cruising industry, the U.S. industry is continuing to grow and modernize—

- 23 new vessels recently delivered or under construction, including 10 carrying 300 or more passengers;
- new 200-250 passenger U.S.-flag coastal cruise ships are under construction for U.S. East, Gulf and West Coast markets; and
- 2 new 1,900 passenger U.S.-flag cruise ships are under contract for the Hawaii market.

- The fact that today there is only one U.S.-flag passenger vessel greater than 10,000 grt in the ocean cruise segment of the industry or that there are U.S. ports not served by such vessels has little to do with the PVSA and a lot to do with other factors such as:

- The easy access of foreign ships to the U.S.-based cruise market;
- U.S. tax and other laws that make it difficult for American cruise ships to compete directly against foreign ships not subject to those laws; and
- The over 40 years that have passed since a U.S. shipyard built a large ocean-going cruise ship—a fact being remedied by the U.S.-Flag Cruise Ship Pilot Project.

Building a U.S.-Flag, U.S.-Built Ocean Cruise Industry

- The Task Force strongly supports the Committee's objective of increasing domestic ocean cruising opportunities for the American traveling public and for U.S. ports—but *with U.S. owned and operated, U.S.-flag ships, built in U.S. shipyards and employing American crews*. A strong U.S. industry cannot be achieved by opening the domestic cruise market to foreign-flag, foreign crewed ships, operated largely outside U.S. laws by foreign owners—such as would be allowed under S. 1510, the United States Cruise Ship Tourism Development Act of 1999. For that reason, the Task Force has noted its opposition to S. 1510.

- The radical departures from U.S. maritime and transportation policy urged by proponents of S. 1510, with no guarantee that when the benefits conferred on foreign operators by the Act, expire after 2006 there would be any commitment to a U.S. industry, are not necessary to the goal of creating a viable U.S. ocean cruise industry. We do not need to transfer the economic benefits of domestic cruising to foreign shipowners to build a viable U.S. ocean cruise industry.

• As Congress faces the challenge of fostering future growth in the U.S. ocean cruise industry, the Task Force urges it to pursue only solutions embodying the following principles:

- U.S. flag
- U.S. crew
- U.S. owned and operated
- U.S. new construction

[Full 37-page statement is retained in the Committee's files.]

